



ANNUAL PERFORMANCE REPORT 2010/11

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2928
1509
1094
0
500
1000
1500
2000
2500
3000
3500
2008/2009
2009/2010
2010/2011
No of jobs created

| | | | | | | | |
|------|-------|-------|------|---------|---------|----------|--------|
| R 2 | R 40 | 280 | R 20 | 000 | R'000 | storage | Parkin |
| 000 | 000 | R 994 | 000 | R 100 | Traffic | fees | g |
| R 10 | R 10 | R 103 | R 40 | 000 | escort | Emergen | Budge |
| 000 | 000 | 624 | 000 | R 120 | Anima | cy | t |
| R 70 | R 460 | R 12 | R 60 | 000 | l | calls | Actual |
| 000 | R 13 | 293 | 000 | Traffic | pound | Sundry | |
| R 10 | 384 | R - | R 80 | fin | and | services | |
| 000 | R 6 | | | | | | |

| | | | |
|-----|-----|-----|----------------------|
| 602 | 547 | 662 | |
| 303 | 600 | 14 | 2009/2010 |
| 387 | 800 | 00 | 2010/2011 |
| 618 | 100 | 20 | No of female |
| 0 | 0 | 08/ | employees |
| 200 | 120 | 20 | No of male employees |
| 400 | 0 | 09 | |

| | | |
|------|-----|----------------------------|
| 1923 | | |
| 2011 | 196 | 0 |
| 1959 | 0 | 2008/2009 |
| 1860 | 198 | 2009/2010 |
| 1880 | 0 | 2010/2011 |
| 1900 | 200 | No of man days lost due to |
| 1920 | 0 | sick |
| 1940 | 202 | leave |

-
100 000 000
200 000 000
300 000 000
400 000 000
500 000 000
600 000 000
700 000 000
800 000 000
900 000 000
2008/2009
2009/2010
2010/2011
Total actual income
Total expenditure

| | |
|---|-----------|
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1. Foreword by the Executive mayor

2. Performance Overview

2.1 Introduction

The Local Government: Municipal Systems Act 2000 (Act No 32 of 2000) (the MSA) obliges the municipality (MAP) to develop and implement a performance management system (PMS). The PMS is a framework that describes and represents how MAP's cycle and processes of planning, monitoring, measuring, reviewing, reporting and improving its performance will be conducted, organised and managed and what roles different role-players will fulfil in the process. It produces evidence of the extent to which the municipality implemented its integrated development plan (IDP) and serves as basis for identifying the reasons for underperformance in order to take corrective action in a timely fashion.

Section 46 of the MSA further requires that MAP must, at least once during a year, measure and review its performance against the KPIs and performance targets contained in its PMS and prepare an annual performance report. These measurements will indicate in what areas MAP performed satisfactorily and where improvements are required.

2.2 Background

There are 97 172 households within the municipality, according to the census held in 2007. Two settlement types dominate the municipality, namely urban-type settlements such as Phuthaditjhaba, Intabazwe, Harrismith, Kestell, Tshiame and Tlholong and non-urban settlements. Non-urban type settlements may be classified into two distinct settlement types, namely commercial farming areas and communally-owned land.

The municipality does not provide basic municipal services to people living in commercial farming areas, unless they can access those services at their own cost, such as library services and building control.

Dotted around the municipality are several significant developments, such as Montrose City, truck stops and filling stations, accommodation establishments such as LalaNathi Lodge and Qwantani Resort to which the Municipality does not provide services.

2.3 General Key Performance Indicators

The Municipal Planning and Performance Management Regulations (2001) in terms of the MSA set the requirements for performance management out in detail. The Regulations also contain general KPIs which all municipalities must apply. The municipality's performance against these general KPIs is discussed in this Chapter.

2.3.1 *National Key Performance Area: Service Delivery*

The following key performance indicators were measured:

| | | | |
|--|-----|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of solid waste removal | 31% | 33% | 33% |
| The percentage of | 26% | 28% | 28% |

The municipality is making progress with the provision of access to basic services in the municipal area.

2.3.2 National Key Performance Area: Local Economic Development

The number of jobs created through municipality's local economic development initiatives including capital projects decreased during the 2010/11 financial year with 415 jobs.

2.3.3 National Key Performance Area: Municipal Transformation and Institutional Development

2.3.3.1 The number of people from employment equity target groups employed in the three highest levels of management in compliance with the municipality's approved employment equity plan

The three highest management levels in the municipality consist of **31** positions. Currently **90%** of the employees employed in the three highest levels of management are from the designated groups.

2.3.3.2 The percentage of a municipality's budget actually spent on implementing its workplace skills plan

The municipality spent 40% of the training budget on the implementation of the workplace skills plan.

2.3.4 National Key Performance Area: Financial Viability

2.3.4.1 Debt Coverage Ratio

The debt coverage ratio indicates the municipality's ability to generate sufficient income for debt servicing to interest, principal and lease payments. A low debt coverage ratio (i.e. < 1) indicates that the municipality might encounter difficulties meeting debt service/finance charge obligations from own operating revenue. A high ratio (i.e. > 1) indicates relatively low expenses and a good financial position.

The municipality will have to introduce measures to improve their debt coverage ratio, as they currently do not have sufficient net income to service the debt, if no grants are received. The following formula is used to determine the ratio:

Debt coverage ratio= Surplus for the year – Operating grants + Grants paid + Finance cost+ Non-cash items ÷ Debt service payments

Debt coverage ratio – Excluding grants received and paid:

| | | | |
|--|-----|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of solid waste removal | 31% | 33% | 33% |

| | | | |
|--|-----|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of solid waste | 31% | 33% | 33% |

| | | | |
|--|-------|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of solid waste removal | 31% | 33% | 33% |
| The percentage of households earning less than R1100 per month with access to free basic services | 26% | 28% | 28% |
| The percentage of a municipality's capital budget actually spent on capital projects identified for the financial year | 69.9% | 93.3% | 100% |

Debt coverage ratio including grants received and paid:

2.3.4.2 Outstanding service debtors to revenue ratio

The outstanding service debtors to revenue ratio indicates the average number of days debtors (property rates, water sales, electricity sales, sewage removal and refuse removal) are outstanding. An acceptable norm is 56 days.

As general guideline debtors older than 90 - 120 days is deemed to be irrecoverable. On 30 June 2011 R421 612 077 (2010: R378 110 927) debtors was impaired, 90% of the Municipality's debtors was older than 60 days.

| | | | | |
|---|-----|-----|---|---|
| | | | <i>Cost coverage = All</i> | the Municipality would be able to |
| The percentage of households with access to basic level of water | 87% | 82% | 94% | |
| The percentage of | 52% | 57% | 66.6% | meet its short term obligations: |
| The municipality will have to introduce and enforce stricter credit control and debt collection measures to ensure the financial viability of the municipality. | | | <i>available cash + Investments ÷ Monthly fixed operating expenditure</i> | <i>LIQUIDITY = Current assets ÷ Current liabilities</i> |

2.3.4.3 Cost coverage ratio

The cost coverage ratio indicates the cash flow situation of the municipality, i.e. whether it has the cash available to cover its expenses during a specified period. If the result of the equation is > 1 it means that the Municipality has sufficient cash to cover one month's expenses. If it is <1, the municipality cannot cover a month's expenses, which

2.3.4.4. Liquidity ratio
Liquidity is an indicator that indicates whether the Municipality will be able to meet its short term obligations and is

| | | | |
|--|-----|-----|---|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| means that it will not be able to meet its commitments. Ideally the ratio should be 3 or > 3, i.e. the Municipality should have sufficient cash to cover three month's expenses. Cost coverage is determined by using the following formula: | | | expressed by the following formula. If the result of the equation is 1 or more, |

| | | | |
|--|-----|-----|-------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of | 52% | 57% | 66.6% |

In the short term the municipality will be able to meet its short term obligations. The municipality should however strive to increase the ratio to at least 2.

2.3.4.5 Solvency ratio

Solvency is an indicator that indicates whether the Municipality would be able to meet its long term obligations i.e. whether the Municipality would be able to meet its long term obligations if it is dissolved (in the case of private enterprise if it is liquidated). If the result of the equation is 1 or more, the Municipality would be able to meet its long term obligations:

Solvency = Surplus for the year + Non-cash items ÷ Long term liabilities + Short term liabilities

| | | | |
|--|-----|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of solid waste removal | 31% | 33% | 33% |
| The percentage of households earning less | 26% | 28% | 28% |

3. Infrastructure Services

3.1 Electricity

The Municipality does not reticulate electricity in the whole of its area of jurisdiction, but only in the area for which it holds an electricity distribution license. Eskom provides electricity in those parts of the Municipality that falls outside the Municipality’s license area.

| | | | |
|--|-----|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 88% | 81.5% | 88.18% |

Although electricity distribution losses have marginally declined since the previous two years, distribution losses were still high during the reporting period.

Power failures also decreased from the previous year.

3.2 Water

The following results were achieved during the financial year under review. Notably water losses decreased again during this financial year as seen below.

| | | | |
|--|-----|-----|-----|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
|--|-----|-----|-----|

A water services audit was conducted in conjunction with DWA and blue drop status was achieved in the financial year. The water quality plan was completed as to apply for the water licenses awaiting approval water distribution licenses from the department of water affairs.

3.3 Sanitation

Blockages of sewer mains decreased and are the result of the increased expenditure on maintenance of the sewage network as shown below. The time taken to clear mainline blockages is, however, still too long and should be decreased.

| | | | |
|--|-----|-----|-----|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
|--|-----|-----|-----|

The quality of the purification works is shown below. The municipality achieved green drop status for purification during the financial year. The municipality increased the number of tests conducted and achieved a success rating of 98.55% for compliance.

| | | | |
|--|-----|-----|-----|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
|--|-----|-----|-----|

3.4 Municipal Transformation and Organisational Development

The directorate developed a training schedule based on a work skills plan and the following training was completed in the financial year:

| | | |
|----------------------------|----------------|----------------|
| Project management courses | : 11 employees | |
| I.T training | | : 16 employees |
| MIG and EPWP training | : 04 employees | |
| CPMD | | : 04 employees |
| High voltage Regulations | : 09 employees | |
| Learner ship- Electrical | : 12 employees | |
| Learner ship- Mechanical | : 7 employees | |

All post levels 1-3 have a performance and development plan for the 2010/11 financial year.

3.5 Municipal Infrastructure Grant

Certificate of
expenditure - MIG
projects

The MIG grant spending for the past four financial years are reflected in the table below:

| | | | | Amount Allocated |
|---|-------|-------|--------|------------------|
| | | | | |
| The percentage of households with access to basic level of water | 87% | 82% | 94% | per Sector |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% | |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% | |
| The percentage of households with access to basic level of solid waste removal | 31% | 33% | 33% | |
| The percentage of households earning less than R1100 per month with access to free basic services | 26% | 28% | 28% | |
| The percentage of a municipality's capital budget actually spent on | 69.9% | 93.3% | 100% | |
| | | | | |
| The percentage of households with access to basic level of water | 87% | 82% | 94% | |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% | |

| | | | |
|--|-------|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of solid waste removal | 31% | 33% | 33% |
| The percentage of households earning less than R1100 per month with access to free basic services | 26% | 28% | 28% |
| The percentage of a municipality's capital budget actually spent on capital projects identified for the financial year | 69.9% | 93.3% | 100% |

| | | | | |
|---|----------|--------------------|----------|--------------------|
| Total revenue received | R | 855 971 038 | R | 827 283 047 |
| Less: Debt impairment | | | R | -20 797 249 |
| | - | | | |
| Less: Government grants | R | -465 563 245 | R | -393 450 235 |
| Income excluding grants received and debt impairment (A) | R | 390 407 793 | R | 413 035 563 |
| Operating expenditure as per the AFS | R | 733 976 841 | R | 599 779 660 |
| Add back: Depreciation | R | -39 124 904 | R | -36 340 892 |
| Add back: Finance cost | R | 2 115 622 | R | 2 007 662 |

| | | | |
|--|-----|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |

3.6 Infrastructure projects

Projects Implemented by the PMU during the 2010/2011 Financial Year

3.6.1 Roads and Storm water projects

3.6.2 Water and Sanitation projects

| | | | |
|--|----------|--------------------|----------------------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 31% | 33% | 33% |
| The percentage of households with access to basic level of solid waste removal | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households earning less than R1100 per month | 26% | 28% | 28% |
| The percentage of households with access to services | 31% | 33% | 33% |
| The percentage of a municipality's capital budget actually spent on capital projects identified for the financial year | 69.9% | 93.3% | 100% |
| The percentage of a municipality's capital budget actually spent on capital projects identified for the financial year | 26% | 28% | 28% |
| The percentage of a municipality's capital budget actually spent on capital projects identified for the financial year | 69.9% | 93.3% | 100% |
| Total revenue received | R | 855 971 038 | R 827 283 047 |
| Less: Debt impairment | | | R -20 797 249 |
| Less: Government grants | R | -465 563 245 | R -393 450 235 |
| Income excluding grants received and debt impairment (A) | R | 390 407 793 | R 413 035 563 |

| | | | |
|---|-------|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of solid waste removal | 31% | 33% | 33% |
| The percentage of households earning less than R1100 per month with access to free basic services | 26% | 28% | 28% |
| The percentage of a municipality's capital budget actually spent on capital projects identified | 69.9% | 93.3% | 100% |
| 3.6.3 Bridges | | | |

| | | | |
|---|-----|-----|-----|
| The percentage of households with access to | 87% | 82% | 94% |
|---|-----|-----|-----|

3.6.4 Electricity

3.6.5 Public facilities and others

| | | | |
|--|-----|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to | 31% | 33% | 33% |

| | | | |
|--|-----|-----|-----|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| Contract administration: | 87% | 82% | 94% |

SUMMARY REPORT
Projects Details as At 30 June 2011

| | | | |
|--|-------|--------------------|----------------------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of waste removal | 31% | 33% | 33% |
| households with access to basic level of sanitation | 52% | 57% | 66.6% |
| households earning less than R1100 per month | 26% | 28% | 28% |
| households with access to with access to free basic services | 82% | 81.5% | 90.12% |
| The percentage of a municipality's capital budget actually spent on capital projects identified for the financial year | 31% | 33% | 33% |
| households earning less than R1100 per month with access to free basic services | 69.9% | 93.3% | 100% |
| Total revenue received | 26% | 28% | 28% |
| the percentage of a municipality's capital budget actually spent on capital projects identified for the financial year | | | |
| less Government grants | R | 855 971 038 | R 827 283 047 |
| Income excluding grants received and debt impairment (A) | 69.9% | 93.3% | R -20 709 249 |
| | - | | |
| less Government grants | R | -465 563 245 | R -393 450 235 |
| Income excluding grants received and debt impairment (A) | R | 390 407 793 | R 413 035 563 |
| Operating expenditure as per the AFS | R | 733 976 841 | R 599 779 660 |
| Total revenue received | R | 855 971 038 | R 827 283 047 |
| Add back: Depreciation | R | -39 124 904 | R -36 340 892 |
| Add back: Finance cost | R | 2 115 622 | R 2 007 662 |

| | | | |
|--|----------|--------------------|----------------------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of solid waste removal | 31% | 33% | 33% |
| The percentage of households earning less than R1100 per month with access to free basic services | 26% | 28% | 28% |
| The percentage of a municipality's capital budget actually spent on capital projects identified for the financial year | 69.9% | 93.3% | 100% |
| | | | |
| Total revenue received | R | 855 971 038 | R 827 283 047 |
| Less: Debt impairment | | | R -20 797 249 |
| | - | | |
| Less: Government grants | R | -465 563 245 | R -393 450 235 |
| Income excluding grants received and debt impairment (A) | R | 390 407 793 | R 413 035 563 |
| | | | |
| Operating expenditure as per the AFS | R | 733 976 841 | R 599 779 660 |
| Add back: Depreciation | R | -39 124 904 | R -36 340 892 |
| Add back: Finance cost | R | -3 115 632 | R -3 997 662 |
| Add back: Grants paid | R | -68 499 000 | R -61 788 998 |
| Expenditure – cash (B) | R | 623 237 305 | R 497 652 108 |

3.7 Report against integrated development plan:

3.7.1 Ensure proper access to communities

| | | | |
|---|-------|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of solid waste removal | 31% | 33% | 33% |
| The percentage of households earning less than R1100 per month with access to free basic services | 26% | 28% | 28% |
| The percentage of a municipality's capital | 69.9% | 93.3% | 100% |

3.7.2 Improve electricity distribution within the municipal area

3.7.3 Ensure the proper and safe utilisation of electricity by communities

3.7.4 Manage the restructuring of electricity distribution effectively

| | | | |
|---|-----|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of solid waste removal | 31% | 33% | 33% |
| The percentage of households earning less than R1100 per month with access to free basic services | 26% | 28% | 28% |
| The percentage of | 87% | 82% | 94% |

3.7.5 Improve the maintenance of council facilities

3.7.6 Maintain council equipment and fleet in a good working condition

3.9.7 Provide a basic level of sanitation to all the residents of MAP

3.7.8 Ensure that residents have access to portable water

| | | | |
|--|-----|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of water | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of sanitation | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |

3.7.9 Account and manage water distribution

| | | | |
|--|-----|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |

| | | | |
|--|-----|-----|-------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of | 52% | 57% | 66.6% |

| | | | |
|---|-----|-------|--------|
| 4. | | | |
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of | 82% | 81.5% | 90.12% |

Human Settlements, Spatial Development and Planning

4.1 Housing and land

4.1.1& 4.1.2 Facilitate acceleration of housing delivery and ensure that all houses are built on properly serviced sites

4.1.3 Eradicate all informal settlements

human settlement development plan

4.1.6 Provide residential erven arou

| | | | |
|--|-------|--------------------------------------|-------------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of water | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of sanitation | 82% | 81.5% | 90.12% |
| households with access to basic level of electricity | | | |
| The percentage of households with access to basic level of solid waste removal | 31% | 33% | 33% |
| The percentage of households earning less than R1100 per month | 26% | 28% | 28% |
| households with access to basic level of water | 87% | 82% | 94% |
| The percentage of services | 52% | 57% | 66.6% |
| The percentage of a | 69.9% | 93.3% | 100% |
| 4.1.4 Develop and review the local | | 4.1.5 Promote a rental housing stock | Development |

| | | | |
|--|-------|--|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| 4.1.7 Maintain and upgrade municipal properties | | 4.1.10 Secure tenure rights for all in MAP | |
| 4.1.8 Convert non- residential buildings to residential use. | | 4.1.11 Facilitate access to subsistence and commercial farming | |
| 4.1.9 Embark on consumer education on Housing policy / National Housing Code/Impoundment policy. | | | |
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of water waste removal | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of sanitation | 26% | 28% | 28% |
| The percentage of households with access to free basic services | 82% | 81.5% | 90.12% |
| The percentage of a municipality's capital budget actually spent on capital projects identified for the year | 69.9% | 93.3% | 100% |
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of | 52% | 57% | 66.6% |

4.1.12 Manage and improve conditions in commonages and town lands

4.1.13 Prevent soil erosion and degradation

To address some of the objectives and to ensure effective achievement of the objectives, we trained 15 of our officials in the following fields: HSS, Project management and peace keeping.

The 117 housing project is still underway and the Department of Public Works is assisting the municipality to complete this project. Ever since they came on board, there has been a considerable progress, however logistical issues within the municipality hampers on the progress.

| | | | |
|---|-----|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of | 82% | 81.5% | 90.12% |

4.2 Spatial Development and Planning

4.2.1 Improve access to properties

| | | | |
|---|-------|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of solid waste removal | 31% | 33% | 33% |
| The percentage of households earning less than R1100 per month with access to free basic services | 26% | 28% | 28% |
| The percentage of a municipality's capital budget actually spent on | 69.9% | 93.3% | 100% |

4.2.2 To ensure a generally attractive housing stock

4.2.3 To eradicate of informal settlements

| | | | |
|---|-----|-----|-------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |

5. Local Economic Development and Tourism

5.1 Local Economic Development Projects

The following local economic development projects were completed during the reporting period:

5.1.1 Staffing of the division

5.1.2 Draw new investment in the area

| | | | |
|--|-----|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of | 31% | 33% | 33% |
| | | | |
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |

| | | | |
|---|-----|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of solid waste removal | 31% | 33% | 33% |
| The percentage of households earning less than R1100 per month with access to free basic services | 26% | 28% | 28% |

5.1.3 Expand Agriculture sector in the region

5.1.4 To expand the mining and minerals beneficiation sector in the region.

| | | | |
|--|-----|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of solid waste removal | 31% | 33% | 33% |

| | | | |
|--|-----|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of solid waste | 31% | 33% | 33% |

5.1.5 To expand the manufacturing sector

| | | | |
|--|-----|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of solid waste removal | 31% | 33% | 33% |
| The percentage of households earning less than K100 per month | 26% | 28% | 28% |
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of solid waste removal | 31% | 33% | 33% |
| The percentage of households earning less than K100 per month | 26% | 28% | 28% |

5.1.6 To strengthen the institutional capacity of the SMMEs and increase the number of viable number of

emerging businesses.

| | | | |
|--|-------|-------------|---------------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of solid waste removal | 31% | 33% | 33% |
| The percentage of households earning less than R1100 per month with access to free basic services | 26% | 28% | 28% |
| The percentage of a municipality's capital budget actually spent on capital projects identified for the financial year | 69.9% | 93.3% | 100% |
| Total revenue received | D | 955 071 029 | D 927 292 047 |

| | | | |
|--|----------|--------------------|----------------------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of solid waste removal | 31% | 33% | 33% |
| The percentage of households earning less than R1100 per month with access to free basic services | 26% | 28% | 28% |
| The percentage of a municipality's capital budget actually spent on capital projects identified for the financial year | 69.9% | 93.3% | 100% |
| | | | |
| Total revenue received | R | 855 971 038 | R 827 283 047 |
| Less: Debt impairment | | | R -20 797 249 |
| | - | | |
| Less: Government grants | R | -465 563 245 | R -393 450 235 |
| Income excluding grants received and debt impairment (A) | R | 390 407 793 | R 413 035 563 |
| | | | |
| Operating expenditure as per the AFS | R | 733 976 841 | R 599 779 660 |
| Add back: Depreciation | R | -39 124 904 | R -36 340 892 |
| Add back: Finance cost | R | -3 115 632 | R -3 997 662 |
| Add back: Grants paid | R | -68 499 000 | R -61 788 998 |
| Expenditure – cash (B) | R | 623 237 305 | R 497 652 108 |

5.1.7 To eradicate poverty.

5.2 Tourism projects

The following tourism projects were completed during the reporting period

5.2.1 Expand tourism sector in the region

| | | | |
|--|-----|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to | 31% | 33% | 33% |
| | | | |
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to | 31% | 33% | 33% |

| | | | |
|--|----------|--------------------|----------------------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of solid waste removal | 31% | 33% | 33% |
| The percentage of households earning less than R1100 per month with access to free basic services | 26% | 28% | 28% |
| The percentage of a municipality's capital budget actually spent on capital projects identified for the financial year | 69.9% | 93.3% | 100% |
| | | | |
| Total revenue received | R | 855 971 038 | R 827 283 047 |
| Less: Debt impairment | | | R -20 797 249 |
| | - | | |
| Less: Government grants | R | -465 563 245 | R -393 450 235 |
| Income excluding grants received and debt impairment (A) | R | 390 407 793 | R 413 035 563 |
| | | | |
| Operating expenditure as per the AFS | R | 733 976 841 | R 599 779 660 |
| Add back: Depreciation | R | -39 124 904 | R -36 340 892 |
| Add back: Finance cost | R | -3 115 632 | R -3 997 662 |
| Add back: Grants paid | R | -68 499 000 | R -61 788 998 |
| Expenditure – cash (B) | R | 623 237 305 | R 497 652 108 |

| | | | |
|--|--|---|-------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of | 52% | 57% | 66.6% |
| 5.2.2 Facilitated and encourage job creation | the sustainability of all tourism projects | project, Bench making / visiting other municipalities and funding organizations | |

5.2.3 Ensure/ enhance 5.2.4 Identification of new

| | | | |
|--|-----|-----|-----|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
|--|-----|-----|-----|

| | | | |
|--|-----|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of | 31% | 33% | 33% |

| | | | |
|---|-----|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of | 82% | 81.5% | 90.12% |

| | | | | |
|----|---|-----|-------|--------|
| 6. | The percentage of households with access to basic level of water | 87% | 82% | 94% |
| | The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| | The percentage of households with access to | 82% | 81.5% | 90.12% |

Sports Arts and Culture

The Directorate reported on the objectives that they were tasked with below. The Directorate also addressed the challenges that were faced during the financial year and proposed solutions to ensure better service delivery.

6.1 Increase access to sport and recreation facilities

6.2 Introduction of new Sport Codes

6.3 Provide Equipment

| | | | |
|--|-------|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of solid waste removal | 31% | 33% | 33% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households earning less than R1100 per month | 26% | 28% | 28% |
| The percentage of households with access to basic level of solid waste removal services | 31% | 33% | 33% |
| The percentage of a municipality's capital budget actually spent on capital projects identified for the financial year | 69.9% | 93.3% | 100% |
| The percentage of households with access to basic level of water | 87% | 82% | 94% |

6.4 Promote Arts and Culture in MAP

6.5 Maintenance of sports and recreation facilities

cemeterie

6.6 Provide and maintain

| | | | |
|--|-----|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of | 31% | 33% | 33% |
| | | | |
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| | | | |
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |

| | | | |
|--|----------|--------------------|----------------------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of solid waste removal | 31% | 33% | 33% |
| The percentage of households earning less than R1100 per month with access to free basic services | 26% | 28% | 28% |
| The percentage of a municipality's capital budget actually spent on capital projects identified for the financial year | 69.9% | 93.3% | 100% |
| | | | |
| Total revenue received | R | 855 971 038 | R 827 283 047 |
| Less: Debt impairment | | | R -20 797 249 |
| | - | | |
| Less: Government grants | R | -465 563 245 | R -393 450 235 |
| Income excluding grants received and debt impairment (A) | R | 390 407 793 | R 413 035 563 |
| | | | |
| Operating expenditure as per the | R | 733 976 841 | R 599 779 660 |

6.7 Upgrade and maintain sport facilities and grounds/erven in MAP

6.8 Control and eradicate alien plants and vegetation

| | | | |
|--|-------|-------------|---------------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of solid waste removal | 31% | 33% | 33% |
| The percentage of households earning less than R1100 per month with access to free basic services | 26% | 28% | 28% |
| The percentage of a municipality's capital budget actually spent on capital projects identified for the financial year | 69.9% | 93.3% | 100% |
| Total revenue received | | | |
| | R | 955 071 029 | R 937 382 047 |
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of | 52% | 57% | 66.6% |

| | | | |
|---|-----|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of | 82% | 81.5% | 90.12% |

6.9 Beautify the urban areas and access roads

| | | | |
|--|-----|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to | 31% | 33% | 33% |

| | | | |
|--|-----|-------|--------|
| 7. The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of solid waste | 31% | 33% | 33% |

Community Services

7.1 Social Development

The following achievements and challenges were reported on by the Directorate.

7.1.1 Provision of Social Security Services

| | | | |
|--|-------|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of solid waste removal | 31% | 33% | 33% |
| The percentage of households earning less than R1100 per month with access to free basic services | 26% | 28% | 28% |
| The percentage of a municipality's capital budget actually spent on capital projects identified for the financial year | 69.9% | 93.3% | 100% |

| | | | |
|--|-------|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of solid waste removal | 31% | 33% | 33% |
| The percentage of households earning less than R1100 per month with access to free basic services | 26% | 28% | 28% |
| The percentage of a municipality's capital budget actually spent on capital projects identified for the financial year | 69.9% | 93.3% | 100% |

7.1.2 To raise awareness with the community on social problems occurring and services rendered

| | | | |
|---|-------|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of solid waste removal | 31% | 33% | 33% |
| The percentage of households earning less than R1100 per month with access to free basic services | 26% | 28% | 28% |
| The percentage of a municipality's capital | 69.9% | 93.3% | 100% |

7.1.3 Development and support services

| | | | |
|---|-----|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to | 82% | 81.5% | 90.12% |

| | | | | | |
|--|-------|----------|--------------------|-------|----------------------|
| The percentage of households with access to basic level of water | 87% | | 82% | | 94% |
| The percentage of households with access to basic level of sanitation | 52% | | 57% | | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | | 81.5% | | 90.12% |
| The percentage of households with access to basic level of solid waste removal | 31% | | 33% | | 33% |
| The percentage of households earning less than R1100 per month with access to free basic services | 26% | | 28% | | 28% |
| The percentage of a municipality's capital budget actually spent on capital projects identified for the financial year | 69.9% | | 93.3% | | 100% |
| | | | | | |
| Total revenue received | | R | 855 971 038 | | R 827 283 047 |
| Less: Debt impairment | | | | | R -20 797 249 |
| | | | - | | |
| Less percentage of grants received | 87% | R | -465 563 245 | 82% | R -393 440 235 |
| Income excluding grants and debt impairment (A) | | R | 390 407 793 | | R 413 035 563 |
| The percentage of households with access to basic level of sanitation | 52% | | 57% | | 66.6% |
| Operating expenditure per the | | R | 733 976 841 | | R 599 779 660 |
| Add back depreciation | 82% | R | -39 124 904 | 81.5% | R -39 940 892 |
| Add back finance cost | | R | -3 115 632 | | R -3 997 662 |
| Add back Grants paid | | R | -68 499 000 | | R -61 788 998 |
| Expenditure cash (B) | 31% | R | 623 237 305 | 33% | R 497 652 108 |
| households with access to basic level of solid waste removal | | | | | |
| The percentage of households earning less than R1100 per month with access to free basic services | 26% | | 28% | | 28% |

7.1.4 To ensure accessibility of Social Development services

| | | | |
|--|-----|-----|-----|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
|--|-----|-----|-----|

7.2 Waste management

7.2.1 Improve waste removal service and management of landfill sites

7.2.2 Reduce illegal dumping

The following challenges were faced by the directorate:

☐ Funding for IWMP is still a challenge.

☐

| | | | |
|--|----------|--------------------|----------------------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of solid waste removal | 31% | 33% | 33% |
| The percentage of households earning less than R1100 per month with access to free basic services | 26% | 28% | 28% |
| The percentage of a municipality's capital budget actually spent on capital projects identified for the financial year | 69.9% | 93.3% | 100% |
| | | | |
| Total revenue received | R | 855 971 038 | R 827 283 047 |
| Less: Debt Impairment | | | R -20 797 249 |
| | = | | |
| Less: Government grants | R | -465 563 245 | R -393 450 235 |
| Income excluding grants received and debt impairment (A) | R | 390 407 793 | R 413 035 563 |
| | | | |
| Operating expenditure as per the | D | 732 876 841 | D 588 778 660 |

| | | | |
|--|-----|-----|-----|
| The percentage of households with access to | 87% | 82% | 94% |
| There is a shortage of equipment such as TLB and tipper trucks hence the department is unable to clear all illegal dumping in all wards. | | | |

7.3 Public Libraries

The municipality managed and operated the following public libraries –

- ▣ Intabazwe
- ▣ Kestell
- ▣ Children’s library
- ▣ RJR Masiea library
- ▣ Tshiame library
- ▣ Harrismith library

7.3.1 Improve people’s life skills

Challenges:

- ▣ Garden equipment needed to start with the programme; a list of needed equipment has been supplied.

7.3.2 Contribute towards the improvement of education

| | | | |
|---|-----|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to | 82% | 81.5% | 90.12% |

| | | | |
|--|--------------------|--------------------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of solid waste removal | 31% | 33% | 33% |
| The percentage of households earning less than R1100 per month with access to free basic services | 26% | 28% | 28% |
| The percentage of a municipality's capital budget actually spent on capital projects identified for the financial year | 69.9% | 93.3% | 100% |
| Total | 355 071 000 | 337 000 017 | |

Challenges

Due to staff shortages we are unable to reach our targets are planned.

7.3.3 Improve access to libraries

| | | | |
|--|----------|--------------------|----------------------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of solid waste removal | 31% | 33% | 33% |
| The percentage of households earning less than R1100 per month with access to free basic services | 26% | 28% | 28% |
| The percentage of a municipality's capital budget actually spent on capital projects identified for the financial year | 69.9% | 93.3% | 100% |
| Total revenue received | R | 855 971 038 | R 827 283 047 |
| Less: Debt impairment | | | R -20 797 249 |
| | - | | |
| Less: Government grants | R | -465 563 245 | R -393 450 235 |
| Income excluding grants received and debt impairment (A) | R | 390 407 793 | R 413 035 563 |
| Operating expenditure as per the | R | 733 976 811 | R 599 779 660 |

| | | | |
|---|-----|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of solid waste removal | 31% | 33% | 33% |
| The percentage of households earning less than R1100 per month with access to free basic services | 26% | 28% | 28% |
| 7.3.4 Ensure that the community have easy access to relevant information and improving the functioning of libraries | | | |

| | | | |
|---|-------|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of solid waste removal | 31% | 33% | 33% |
| The percentage of households earning less than R1100 per month with access to free basic services | 26% | 28% | 28% |
| The percentage of a population that is literate | 69.9% | 93.3% | 100% |

9. Public Safety and Transport

The following table sets out the financial achievements of the public safety and transport directorate:

| | | | |
|--|-----|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of water | 31% | 33% | 33% |
| The percentage of households with access to basic level of water | 52% | 57% | 66.6% |

The following achievements and challenges were reported on by the Directorate.

9.1 Accessibility and transport

9.1.1 To facilitate the accessibility of public transport in all areas in MAP including farming communities

9.1.2 To ensure the safety of all the persons to have access to public buildings

9.1.3 To create a safe and secure environment for all road users

| | | | |
|--|-----|-----|-------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of water | 52% | 57% | 66.6% |

9.1.4 To improve the payment of traffic fines

| | | | |
|---|-----|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of water | 82% | 81.5% | 90.12% |

| | | | |
|---|-----|-----|-----|
| The percentage of households with access to | 87% | 82% | 94% |
|---|-----|-----|-----|

9.1.4 To develop Fleet Management System

9.1.5 To protect the existing road infrastructure

| | | | |
|---|-------|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of solid waste removal | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 31% | 33% | 33% |
| The percentage of households earning less than R1100 per month with access to free basic services | 82% | 81.5% | 90.12% |
| The percentage of a municipality's capital budget actually spent on capital projects identified | 26% | 28% | 28% |
| The percentage of a municipality's capital budget actually spent on capital projects identified | 31% | 33% | 33% |
| The percentage of a municipality's capital budget actually spent on capital projects identified | 69.9% | 93.3% | 100% |
| The percentage of a municipality's capital budget actually spent on capital projects identified | 26% | 28% | 28% |
| The percentage of a municipality's capital budget actually spent on capital projects identified | 69.9% | 93.3% | 100% |

| | | | |
|--|-------|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of solid waste removal | 31% | 33% | 33% |
| The percentage of households earning less than R1100 per month with access to free basic services | 26% | 28% | 28% |
| The percentage of a municipality's capital budget actually spent on capital projects identified for the financial year | 69.9% | 93.3% | 100% |

9.2 Safe and secure environment

9.2.1 To ensure control of livestock in all areas

9.2.2 To ensure that there will be a decrease in existing crime

| | | | |
|---|-------|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of solid waste removal | 31% | 33% | 33% |
| The percentage of households earning less than R1100 per month with access to free basic services | 26% | 28% | 28% |
| The percentage of a municipality's capital | 69.9% | 93.3% | 100% |
| | | | |
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to | 52% | 57% | 66.6% |

| | | | |
|---|-------|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of solid waste removal | 31% | 33% | 33% |
| The percentage of households earning less than R1100 per month with access to free basic services | 26% | 28% | 28% |
| The percentage of a municipality's capital budget actually spent on capital projects identified | 69.9% | 93.3% | 100% |
| | | | |
| The percentage of households with access to basic level of water | 87% | 82% | 94% |

9.2.3 To improve disaster management capacity at the municipality

9.2.4 Increase awareness around public safety

| | | | |
|--|-----|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to | 31% | 33% | 33% |

9.2.5 To improve response-time and efficiency of the Emergency Services

| | | | |
|--|-----|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of solid waste removal | 31% | 33% | 33% |
| The percentage of households earning less than R1100 per month with access to free basic | 26% | 28% | 28% |

| | | | |
|--|----------|--------------------|----------------------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of solid waste removal | 31% | 33% | 33% |
| The percentage of households earning less than R1100 per month with access to free basic services | 26% | 28% | 28% |
| The percentage of a municipality's capital budget actually spent on capital projects identified for the financial year | 69.9% | 93.3% | 100% |
| | | | |
| Total revenue received | R | 855 971 038 | R 827 283 047 |
| Less: Debt impairment | | | R -20 797 249 |
| | - | | |
| Less: Government grants | R | -465 563 245 | R -393 450 235 |
| Income excluding grants received and debt impairment (A) | R | 390 407 793 | R 413 035 563 |
| | | | |
| Operating expenditure as per the AFS | R | 733 976 841 | R 599 779 660 |
| Add back: Depreciation | R | -39 124 904 | R -36 340 892 |
| Add back: Finance cost | R | -3 115 632 | R -3 997 662 |
| Add back: Grants paid | R | -68 499 000 | R -61 788 998 |
| Expenditure – cash (B) | R | 623 237 305 | R 497 652 108 |

10. Corporate Services

10.1 Employment Equity

The demographic profile of the Free State Province reflects a distribution of 51% females and 49% males. Currently the municipality's gender distribution does not reflect that of the province. The municipality will have to address the gender imbalance in the municipality by increasing female representation in the workforce. Although female representation increased from 2009/2010 the number of male employees also increase and kept the representation of female employees to 48% of the total workforce and 3% behind the gender profile of the province.

Designated employees (African, Indian, Coloured, Females and Disabled persons) make out 99% of the workforce. The municipality has succeeded with the overall transformation of the municipality with regard to race. However greater effort must be made with gender transformation in management levels as well as the appointment of disabled persons in the workforce.

10.2 Skills Development

The following number of employees and councillors were trained during the year under review:

10.3 Effective people management

The number of employees that took sick leave during the financial year decreased from the previous (2009/10) financial year. The man days lost due to employees taking sick leave decreased with 2.6% from the 2009/10 financial year.

Training of employees and councillors during the year under review

| Year | Number of employees trained | Number of councillors trained |
|---------|-----------------------------|-------------------------------|
| 2009/10 | 123 | 12 |
| 2010/11 | 118 | 11 |
| 2011/12 | 115 | 10 |
| 2012/13 | 110 | 9 |
| 2013/14 | 105 | 8 |
| 2014/15 | 100 | 7 |
| 2015/16 | 95 | 6 |
| 2016/17 | 90 | 5 |
| 2017/18 | 85 | 4 |
| 2018/19 | 80 | 3 |
| 2019/20 | 75 | 2 |

| | | | |
|--|-----|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of solid waste | 31% | 33% | 33% |

| | | | |
|---|-----|-----|-----|
| The percentage of households with access to | 87% | 82% | 94% |
|---|-----|-----|-----|

10.4 Integrated development plan:

10.4.1 To establish and maintain a well-qualified and competent personnel function/service

| | | | |
|--|---------------|---------------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of solid waste removal | 31% | 33% | 33% |
| The percentage of households earning less than R1100 per month with access to free basic services | 26% | 28% | 28% |
| The percentage of a municipality's capital budget actually spent on capital projects identified for the financial year | 69.9% | 93.3% | 100% |
| Total revenue received | R 855 071 028 | R 827 282 047 | |

| | | | |
|---|-----|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of solid waste removal | 31% | 33% | 33% |
| The percentage of households earning less than R1100 per month with access to free basic services | 26% | 28% | 28% |
| 10.5.2 Ensure effective client services | | | |

9.5.3 Ensure an effective administration and legal service

| | | | |
|---|-----|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to | 52% | 57% | 66.6% |
| | | | |
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to | 82% | 81.5% | 90.12% |

11 Financial Services

11.1Expenditure

The municipality is spending on average 18 %(2009/2010: 16%) of its total income on salaries. The norm for spending on salaries is 25% to 35% in local government. The municipality succeeded in keeping personnel cost within reasonable limits. An acceptable norm for spending on maintenance is 5% of the actual income received by a municipality. The municipality spent 0.82% (2009/2010: 2.4%) of the total income on maintenance.

The income of the municipality increased with 9 % from the previous financial year. In this financial year the municipality’s expenditure was less than the income received. The actual income and expenditure for the financial year is shown below.

| | | | |
|--|-----|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |

11.3 Debt Age Analysis

The debt age analysis for the municipality is shown in the table below:

| | | | |
|--|-----|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |

As general guideline debtors older than 90 - 120 days is deemed to be irrecoverable. On 30 June 2011 a total of R 515 768 184 of the municipality's debtors was older than 60 days and R 421 612 077 impairment has been recognised. A total of R 494 533 317 is deemed irrecoverable.

11.4 Grants received

The municipality received R206 784 666 (2009/2010: R163, 355,198) of grants during the year. Grant income has increased with 27 % from the 2009/2010 financial year.

11.5 Number of monthly budget statements submitted to the Executive Mayor

Twelve budget statements were submitted to the Mayor within the timeframe required by section 71 of the Local Government: Municipal Finance Management Act 2003 (Act No 56 of 2003).

11.6 Reporting against the objectives in the integrated development plan

10.5.1 Properly manage and control finances of the municipality

| | | | |
|---|-----|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of | 87% | 81.5% | 88.12% |

10.5.2 Establish a proper accounting system

10.5.3 Properly manage assets and investments of council

| | | | |
|--|-----|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of solid waste removal | 31% | 33% | 33% |
| The percentage of | 26% | 28% | 28% |
| | | | |
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| | | | |

12 Executive services

12.1 Management and Accounting

Management meetings are held biweekly to monitor implementation status of and progress towards objectives. Departments also hold sectional meetings.

12.2 Integrated Development planning and Performance management

The process plan to review the IDP for 2011/2012 was developed and approved by council in July 2010. The adjusted budget was approved by the council in January 2010. The 2011/2012 budget was approved by the council on 10 May 2011.

The budget monthly statements were submitted to the Executive Mayor as per the legislation.

12.3 Corporate and co-operative governance

The schedules for the mayoral committee and council meetings was developed and completed.

Schedules for the public participation for both IDP and budget processes was developed and the public was invited for participation.

12.4 Stakeholder and role player participation in municipal affairs

Participative meetings (Representative Forum) were conducted which included Government Departments, business forum, NGO's, SOE's and CBO's.

12.5 Monitor and evaluate Municipal Performance

Quarterly Performance Reports are submitted to Council for noting.

12.6 ICT

The following ICT policies and procedures were developed:

- ☑ Back up policy
- ☑ Change control
- ☑ IT access control
- ☑ Business continuity
- ☑ Disaster recovery plan
- ☑ IT Outsourcing
- ☑ IT Security
- ☑ IT Steering Committee
- ☑ Laptop Security Policy
- ☑ Logical Policy
- ☑ MAP IT Asset Management
- ☑ Physical access to server room policy
- ☑ Segregation of duties
- ☑ Sharing of information policy
- ☑ SLA policy

☑ Software installation policy

No shutdown incidents on the e-mail system occurred due to server and system technical errors. Only one major server breakdown occurred due to power failures.

The internet system was installed and managed.

The links and the content of the website were updated.

IP phones were successfully installed and managed in the new municipal building, the roll out to the old municipal building was successful.

LAN/WLAN infrastructure – one major network failure occurred due to the network equipment burnt by power failures.

Four UPS was installed to protect the data during power failures.

12.7 Stakeholder Participation in Municipal Affairs

The municipality achieved the following in terms of the communication strategy:

- ☑ Internal newsletter published monthly.
- ☑ External newsletter published quarterly
- ☑ The information on the website is updated regularly
- ☑ Media Monitoring and analysis is done on a daily basis
- ☑ Responses to media enquiries done regularly
- ☑ Media statements and media interviews are done regularly
- ☑ A corporate identity manual was developed
- ☑ Participation in communication forums
- ☑ Publicised campaigns, events and activities of different directorates in the municipality
- ☑ Support the office of the executive mayor with research and speechwriting.

12.8 Integrated development plan

12.8.1 To build inter- governmental partnerships between civil society, business community and to encourage responsible citizenship

| | | | |
|--|----------|--------------------|----------------------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of solid waste removal | 31% | 33% | 33% |
| The percentage of households earning less than R1100 per month with access to free basic services | 26% | 28% | 28% |
| The percentage of a municipality's capital budget actually spent on capital projects identified for the financial year | 69.9% | 93.3% | 100% |
| Total revenue received | R | 855 971 038 | R 827 283 047 |
| Less: Debt impairment | | | R -20 797 249 |
| | - | | |
| Less: Government grants | R | -465 563 245 | R -393 450 235 |
| Income excluding grants received and debt impairment (A) | R | 390 407 793 | R 413 035 563 |

12.8.2 Ensure an accountable and performance driven local government

12.8.3 Proper and well maintained IT system

| | | | |
|--|-------|-------|--------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of solid waste removal | 31% | 33% | 33% |
| The percentage of households earning less than R1100 per month with access to free basic services | 26% | 28% | 28% |
| The percentage of a municipality's capital budget actually spent on capital projects identified for the financial year | 69.9% | 93.3% | 100% |

| | | | | |
|------------------------|---|-------------|---|-------------|
| Total revenue received | R | 855 971 038 | R | 827 283 047 |
|------------------------|---|-------------|---|-------------|

| | | | |
|-------------------|-----|-----|-----|
| The percentage of | 87% | 82% | 94% |
|-------------------|-----|-----|-----|

| | | | |
|--|----------|--------------------|----------------------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |
| The percentage of households with access to basic level of electricity | 82% | 81.5% | 90.12% |
| The percentage of households with access to basic level of solid waste removal | 31% | 33% | 33% |
| The percentage of households earning less than R1100 per month with access to free basic services | 26% | 28% | 28% |
| The percentage of a municipality's capital budget actually spent on capital projects identified for the financial year | 69.9% | 93.3% | 100% |
| | | | |
| Total revenue received | R | 855 971 038 | R 827 283 047 |
| Less: Debt impairment | | | R -20 797 249 |
| | - | | |
| Less: Government grants | R | -465 563 245 | R -393 450 235 |
| Income excluding grants received and debt impairment (A) | R | 390 407 793 | R 413 035 563 |
| | | | |
| Operating expenditure as per the | R | 733 976 841 | R 599 779 660 |

12.8.4 Expand the science and technology sector in the region

12.9 Challenges

The following challenges were experienced by executive services:

- ☒ The strategic sessions were not conducted
 - ☒ Mid-Year and final performance assessment of Section 57 could not be conducted.
 - ☒ Under staffed, the following positions were vacant during the year:
 - IT Manager
 - Admin Clerk
 - Senior IT Technician
 - IT Technicians (2)
 -
- IT

| | | | |
|---|-----|-----|-------|
| The percentage of households with access to basic level of water | 87% | 82% | 94% |
| The percentage of households with access to basic level of sanitation | 52% | 57% | 66.6% |

Helpdesk support technician

- ☒ There was a lack of the following resources:
 - Vehicle
 - Cellular phone allowance
 - Budget

MALUTI-A-PHOFUNG WATER (PTY) LTD.

MANAGEMENT REPORT ON THE REGULATORY AUDIT AND THE AUDIT OF PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2010

Audit opinion/Audit issues
Date of this report:

| SUMMARY OF AUDIT FINDINGS | | | | | | | | ACTION PLAN | | | | PROGRESS | | | ASSESMENTS | |
|--------------------------------|--------|----------------------|------------------|---|---------------|----------------------------|--------------------------------|---|------------|-----------------|------------------------------------|--|----------------------------|-------------|------------------------------------|-------------------------------|
| Programme Resp. for Monitoring | Number | Communication Number | Exception Number | Audit finding & Description | Impact | Reported in Previous Years | Previous Year Exception Number | Corrective Actions to be Taken | Start date | Completion date | Responsible Person | Current dependencies for action to be successful | Progress on Reporting Date | % Completed | Reasons if Target Date was not met | Assessments by Internal Audit |
| Property, plant and equipment | | | | | | | | | | | | | | | | |
| | 7 | 14 | | Assets: The asset register was deemed the only suitable record of assets held by the entity that supported the property, plant and equipment amounting to R2 401 283 (2010:R2 761 233) as disclosed in the statement of financial position and note 8 to the financial statements. During the year 1 066 assets were identified that were not previously included in the asset register. these assets were included in the asset register at R1 as the values could not be determined during the financial year. Since the entity's accounting records did not permit the application of reasonable alternative procedures, i was unable to confirm the valuation of property, plant and equipment, as disclosed in the statement of financial position and note 8 to the financial statements for the current and prior year | Qualification | no | no | Appoint the Valuators ,prepare the procedure ,get approval from Auditor General on the approach of the valuation. Valuate assets and adjust the Financial Statements and the Asset Register . | | 30-Apr-12 | Manager Finance and Administration | Approval of the procedure and qualification of the Valuator by AG | | | | |
| | 8 | 14 | | Assets: International Accounting Standards 36, Impairment of assets, and International Public Service Accounting Standard 21, <i>Impairment of non-cash generating assets</i> , requires that property, plant and equipment should be assessed for impairment at each reporting date. Management did not assess whether there was a decrease in the value of property, plant and equipment. Consistently, I could not obtain adequate audit assurance as to the valuation of property, plant and equipment in note 8 and the cost of impairment in the statement of financial position for the current and prior year. | Qualification | No | no | Values will be obtained for these assets in order to assess impairment. | | 30-Apr-12 | Manager Finance and Administration | Approval of the procedure and qualification of the Valuator by AG | | | | |
| | 9 | 30 | | Depreciation: The useful lives used for the depreciation charge for plant and machinery, and office and other equipment differed from the useful lives described in accounting policy note 1.2 to the financial statements. The depreciation charge and accumulated depreciation, disclosed in the financial performance and statement of financial position respectively, are understated in aggregate by R276 684 and property, plant and equipment is overstated by the same amount. | Qualification | No | no | Depreciation rates mentioned in the entity's accounting policy will be used and adjustment made on the comparative at year end | | | Manager Finance and Administration | Approval of the procedure and qualification by AG | | | | |
| Inventory | | | | | | | | | | | | | | | | |
| | 10 | 49 | | Inventories: Paragraph 17 of GRAP 12, Inventory, requires all inventories to be recognised at the lower of the cost of the inventories and the net realisable value. Paragraph 18 requires inventories to be shown at replacement value where it would be distributed at no or normal cost or consumed in the production of goods distributed at no or a nominal cost. I identified 53 inventory items for which the entity carried stock which had no value assigned to it. I was unable to obtain sufficient appropriate audit evidence with regard to the valuation of inventories amounting to R1 973 063, disclosed in the statement of financial position and note 3 to the financial statements, due to this weakness. I could also not perform alternative procedures to confirm this balance due to lack of information. | Qualification | No | no | Invite quotes for 53 items identified . Update the Evenus with the correct unit prices . Conduct monthly reconciliation of the subledger and general ledger using inventory valuation report . | | | Manager Finance and Administration | Correction was done by getting quotations and prices were processed manually, but still the system doesnt recognise the manual capturing of prices. The matter will be corrected in consultation with IT | | | | |
| Trade and other payables | | | | | | | | | | | | | | | | |
| | 11 | | | Trade and other payables: The existence, completeness and valuation of, as well as the entity's obligation towards the balance of trade payables amounting to R5 556 809 (2010: R3 461 823) disclosed in the statement of financial position and note 12 to the financial statements, could not be confirmed due to supplier statements and supporting documentation not obtained. I was not able to perform alternative procedures to confirm this balances. | Qualification | YES | | Enforce monthly creditors reconciliation. | | Monthly | Manager Finance and Administration | | | | | |
| A | 12 | | | Trade and other payables: I could also not obtain sufficient appropriate audit evidence for accruals amounting to R864 919 which is included in deposits and disclosed in note 12 to the financial statements to confirm the existence and valuation of, and the entity's obligations to accruals. I was not able to perform alternative procedures to confirm this balance. | Qualification | No | | Reverse all system generated provisions when migrating to Evenus | | 30-Apr-12 | | | | | | |
| | 13 | | | Trade and other payables: Unreconciled differences between the financial records and suppliers' statements were identified in the prior year which indicates that payables to the amount of R445 864 had not been recorded in the financial records. This resulted in an understatement of payables and expenditure as disclosed in the financial statements for the prior year. | Qualification | No | | Enforce monthly creditors reconciliation . Reconcile prior year and adjust the comparative figures | | 30-Apr-12 | | | | | | |
| Irregular expenditure | | | | | | | | | | | | | | | | |
| | 14 | 53 | | Irregular expenditure: is defined in section 1 of the MFMA as expenditure incurred by the entity in contravention of or not in accordance with the MFMA, the Municipal Systems Act, 200 (Act No. 32 of 2000), or a requirement of supply chain management policy of the entity and must be disclosed in the financial statements in terms of section 125(d) of the MFMA. The audit reveled irregular expenditure amounting to R3 147 285 that was not disclosed in note 37 to the financial statements. This irregular expenditure related to instances were officials did not comply with the SCM policy of the entity or where the SCM policy was less strict than the requirements of the SCM regulations which resulted in irregular expenditure. Due to the nature of the matter as well as the deficiencies in the systems of internal control and financial reporting at the entity, i could not confirm the completeness of the amount. | Qualification | | | Develop a procedure to detect irregular expenditure . Get approval of the procedure from Auditor General Office . Investigate , implement and develop a register for condoning by the Board . Disclose complete irregular expenditure in the financial statements | | 30-Jun-12 | Supply chain Manager | Finalisation of the investigation of all expenditure population and approval by AG of the approach taken to identify irregular transactions | | | | |
| Related parties | | | | | | | | | | | | | | | | |
| A | 15 | | | I could not obtain sufficient appropriate audit evidence to confirm the cut-off, accuracy and completeness of related parties, discloses in note 31 to the financial statements. This is due to financial declarations not provided to me for all employees. the entity's records did not provide for suitable alternative procedures to be performed | | | | Develop a register for third party transactions and disclose in the financial statements. Introduce declaration of interest register | | 30-Apr-12 | Finance Manager | | | | | |

MALUTI-A-PHOFUNG MUNICIPALITY

APPENDIX A

SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2010

| | Loan number | Redeemable | Balance at 01 July 2009 | Received during the year | Redeemed during the year | Balance at 30 June 2010 | Current liabilities | Non current liabilities |
|------------------------------------|---------------|------------|-------------------------|--------------------------|--------------------------|-------------------------|---------------------|-------------------------|
| | | | R | R | R | R | R | R |
| Other financial liabilities | | | | | | | | |
| DBSA | 11018/103 | 31/12/2012 | 1,339,786 | - | 316,537 | 1,023,249 | 365,799 | 657,450 |
| DBSA | 11019/105 | 31/15/2015 | 1,096,774 | - | 109,485 | 987,289 | 126,524 | 860,765 |
| DBSA | 11021/102 | 31/12/2015 | 284,613 | - | 28,412 | 256,201 | 32,833 | 223,368 |
| DBSA | 11076/103 | 30/06/2018 | 1,307,244 | - | 76,165 | 1,231,079 | 88,019 | 1,143,060 |
| DBSA | 11078/202 | 30/06/2018 | 1,346,153 | - | 78,433 | 1,267,720 | 90,638 | 1,177,082 |
| DBSA | 11084/103 | 31/12/2015 | 2,698,058 | - | 269,333 | 2,428,725 | 311,248 | 2,117,477 |
| DBSA | 13768/102 | 31/12/2020 | 1,165,965 | - | 40,894 | 1,125,071 | 47,536 | 1,077,535 |
| DBSA | 13768/202 | 31/12/2020 | 1,018,869 | - | 35,735 | 983,134 | 41,539 | 941,595 |
| DBSA | 13766/302 | 31/12/2021 | 1,350,852 | - | 39,593 | 1,311,259 | 46,024 | 1,265,235 |
| FNB | 4000014650706 | 01/10/2012 | - | 18,652,327 | 2,775,966 | 15,876,361 | 5,717,852 | 10,158,509 |
| | | | 11,608,314 | 18,652,327 | 3,770,553 | 26,490,088 | 6,868,012 | 19,622,076 |

| | Loan number | Redeemable | Balance at 01 July 2009 | Received during the year | Redeemed during the year | Balance at 30 June 2010 | Current liabilities | Non current liabilities |
|----------------------------------|-------------|------------|-------------------------|--------------------------|--------------------------|-------------------------|---------------------|-------------------------|
| | | | R | R | R | R | R | R |
| Finance lease obligations | | | | | | | | |
| ABSA | 69307910 | 01/01/2011 | 66,599 | - | 40,250 | 26,349 | 26,349 | - |
| ABSA | 69307928 | 01/01/2011 | 66,600 | - | 40,240 | 26,360 | 26,360 | - |
| ABSA | 69307901 | 08/01/2011 | 67,414 | - | 40,734 | 26,680 | 26,680 | - |
| ABSA | 68643746 | 01/10/2010 | 59,225 | - | 43,286 | 15,939 | 15,939 | - |
| ABSA | 68643738 | 01/10/2010 | 33,920 | - | 24,815 | 9,105 | 9,105 | - |
| ABSA | 68643304 | 01/10/2010 | 33,931 | - | 24,785 | 9,146 | 9,146 | - |
| ABSA | 68643290 | 01/10/2010 | 33,931 | - | 24,785 | 9,146 | 9,146 | - |
| ABSA | 68648128 | 01/10/2010 | 34,097 | - | 24,940 | 9,157 | 9,157 | - |
| ABSA | 68648110 | 01/10/2010 | 34,097 | - | 24,940 | 9,157 | 9,157 | - |
| ABSA | 68648101 | 01/10/2010 | 34,097 | - | 24,939 | 9,158 | 9,158 | - |
| ABSA | 68648098 | 01/10/2010 | 34,097 | - | 24,939 | 9,158 | 9,158 | - |
| ABSA | 68648080 | 01/10/2010 | 34,097 | - | 24,939 | 9,158 | 9,158 | - |
| ABSA | 68648071 | 01/10/2010 | 34,097 | - | 24,940 | 9,157 | 9,157 | - |
| Quince Asset Rental | CF22/34 | 01/11/2010 | 1,145,380 | - | 761,455 | 383,925 | 383,925 | - |
| | | | 1,711,582 | - | 1,149,987 | 561,595 | 561,595 | - |

This appendix does not form part of the financial statements and is unaudited

MALUTI-A-PHOFUNG MUNICIPALITY

APPENDIX B

ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2010

| Statutory Name | Cost price | | | | | | Accumulated depreciation | | | | Carrying amount |
|---------------------------------|--------------------|-------------------|-------------------------------|--------------------|-----------|----------------------|--------------------------|-------------------|----------|--------------------|--------------------|
| | Opening Balance | Additions | Additions (fair market value) | WIP | Disposals | Closing Balance | Opening Balance | Depreciation | Disposal | Closing Balance | |
| | R | R | R | | R | R | R | R | R | R | R |
| Community Assets | | | | | | | | | | | |
| Civic Buildings | 3,667,276 | 2,549,246 | - | - | - | 6,216,522 | 385,280 | 142,107 | - | 527,387 | 5,689,135 |
| Recreation Grounds | 6,651,939 | - | - | - | - | 6,651,939 | 837,913 | 224,689 | - | 1,062,602 | 5,589,337 |
| Sub Total | 10,319,215 | 2,549,246 | - | - | - | 12,868,461 | 1,223,193 | 366,796 | - | 1,589,989 | 11,278,472 |
| Computer Software | | | | | | | | | | | |
| Software | 629,480 | - | - | - | - | 629,480 | 467,380 | 162,101 | - | 629,481 | (1) |
| Sub Total | 629,480 | - | - | - | - | 629,480 | 467,380 | 162,101 | - | 629,481 | (1) |
| Heritage | | | | | | | | | | | |
| Historical Buildings | 92,340 | - | - | - | - | 92,340 | 4,107 | 3,073 | - | 7,180 | 85,160 |
| Painting & Art Galleries | 36 | - | - | - | - | 36 | 36 | - | - | 36 | - |
| Sub Total | 92,376 | - | - | - | - | 92,376 | 4,143 | 3,073 | - | 7,216 | 85,160 |
| Infrastructure | | | | | | | | | | | |
| Electricity | 509,686 | 228,700 | - | - | - | 738,386 | 142,751 | 31,791 | - | 174,542 | 563,844 |
| Electricity Mains | 342,181,799 | 19,447,544 | - | - | - | 361,629,343 | 277,290,933 | 4,969,419 | - | 282,260,352 | 79,368,991 |
| Electricity Peak Load Equipment | 70,663,680 | 215,027 | - | - | - | 70,878,707 | 32,804,056 | 2,561,891 | - | 35,365,947 | 35,512,760 |
| Land & Buildings | 32,748 | 796,047 | - | - | - | 828,795 | 32,748 | 73,666 | - | 106,414 | 722,381 |
| Pedestrian Malls | 879,213 | - | - | - | - | 879,213 | 70,007 | 29,787 | - | 99,794 | 779,419 |
| Reservoirs-Water | 9,667,109 | - | - | - | - | 9,667,109 | 1,836,190 | 615,962 | - | 2,452,152 | 7,214,957 |
| Roads | 116,647,458 | 26,050,279 | - | - | - | 142,697,737 | 35,018,933 | 5,845,114 | - | 40,864,047 | 101,833,690 |
| Security Measures | 3,748,532 | 2,927,004 | - | - | - | 6,675,536 | 2,302,134 | 527,788 | - | 2,829,922 | 3,845,614 |
| Sewerage Mains & Purification | 134,908,484 | 2,454,612 | - | - | - | 137,363,096 | 42,758,981 | 7,009,602 | - | 49,768,583 | 87,594,513 |
| Water Mains | 64,188,001 | 3,676,714 | - | - | - | 67,864,715 | 18,844,343 | 3,213,660 | - | 22,058,003 | 45,806,712 |
| Water Mains & Purification | 12,079,244 | - | - | - | - | 12,079,244 | 2,401,844 | 603,077 | - | 3,004,921 | 9,074,323 |
| Water Meter | 53,638,680 | 3,310,279 | - | - | - | 56,948,959 | 11,869,296 | 3,217,247 | - | 15,086,543 | 41,862,416 |
| Sub Total | 809,144,634 | 59,106,206 | - | - | - | 868,250,840 | 425,372,216 | 28,699,004 | - | 454,071,220 | 414,179,620 |
| Land & Building | | | | | | | | | | | |
| Building | 16,915,405 | - | - | - | - | 16,915,405 | 1,888,490 | 692,075 | - | 2,580,565 | 14,334,840 |
| Land | 32,599,000 | - | - | - | - | 32,599,000 | - | - | - | - | 32,599,000 |
| Sub Total | 49,514,405 | - | - | - | - | 49,514,405 | 1,888,490 | 692,075 | - | 2,580,565 | 46,933,840 |
| Landfill Sites | | | | | | | | | | | |
| Landfill Sites | 1,610,480 | - | - | - | - | 1,610,480 | 461,212 | 110,397 | - | 571,609 | 1,038,871 |
| Sub Total | 1,610,480 | - | - | - | - | 1,610,480 | 461,212 | 110,397 | - | 571,609 | 1,038,871 |
| Other Assets | | | | | | | | | | | |
| Audio Visual Equipment | 97,787 | - | - | - | - | 97,787 | 14,185 | 31,458 | - | 45,643 | 52,144 |
| Computer Equipment | 7,969,423 | - | - | - | - | 7,969,423 | 4,519,756 | 1,295,908 | - | 5,815,664 | 2,153,759 |
| Fire Equipment | 108,161 | - | - | - | - | 108,161 | 10,212 | 34,892 | - | 45,104 | 63,057 |
| Furniture & Fittings | 4,776,740 | - | - | - | - | 4,776,740 | 540,234 | 827,899 | - | 1,368,133 | 3,408,607 |
| Kitchen Equipment | 133,633 | - | - | - | - | 133,633 | 12,669 | 28,758 | - | 41,427 | 92,206 |
| Machinery & Plant Equipment | 3,681,167 | - | - | - | - | 3,681,167 | 1,452,939 | 1,090,541 | - | 2,543,480 | 1,137,687 |
| Motor Vehicles | 16,234,408 | - | - | - | - | 16,234,408 | 7,401,647 | 2,967,616 | - | 10,369,263 | 5,865,145 |
| Office Equipment | 1,172,683 | 197,183 | - | - | - | 1,369,866 | 549,387 | 191,036 | - | 740,423 | 629,443 |
| Radio Equipment | 5,760 | - | - | - | - | 5,760 | - | 1,439 | - | 1,439 | 4,321 |
| Weapons | 4 | - | - | - | - | 4 | 4 | - | - | 4 | - |
| Sub Total | 34,179,766 | 197,183 | - | - | - | 34,376,949 | 14,501,033 | 6,469,547 | - | 20,970,580 | 13,406,369 |
| Work In Progress | | | | | | | | | | | |
| Community Assets | 3,418,693 | - | - | - | - | 3,418,693 | - | - | - | - | 3,418,693 |
| Infrastructure | 27,564,570 | - | - | 93,991,570 | - | 121,556,140 | - | - | - | - | 121,556,140 |
| Land & Building | 1,326,882 | - | - | 23,171,036 | - | 24,497,918 | - | - | - | - | 24,497,918 |
| Sub Total | 32,310,145 | - | - | 117,162,606 | - | 149,472,751 | - | - | - | - | 149,472,751 |
| Grand Total | 937,800,501 | 61,852,635 | - | 117,162,606 | - | 1,116,815,742 | 443,917,667 | 36,502,993 | - | 480,420,660 | 636,395,082 |

This appendix is not part of the financial statements and is unaudited

MALUTI-A-PHOFUNG MUNICIPALITY

APPENDIX C

SEGMENTAL ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2010

| Statutory Name | Cost price | | | | | Accumulated depreciation | | | | Carrying amount |
|---------------------------------|--------------------|-------------------|--------------------|-----------|----------------------|--------------------------|-------------------|----------|--------------------|--------------------|
| | Opening Balance | Additions | Additions WIP | Disposals | Closing Balance | Opening Balance | Depreciation | Disposal | Closing Balance | |
| | R | R | R | R | R | R | R | R | R | R |
| Legislative authority | 1,467,435 | 3,695 | - | - | 1,471,130 | 643,002 | 287,540 | - | 930,542 | 540,588 |
| Office of the municipal manager | 1,094,634 | 60,395 | - | - | 1,155,029 | 518,054 | 158,125 | - | 676,179 | 478,850 |
| Corporate services | 2,870,946 | - | - | - | 2,870,946 | 626,956 | 749,885 | - | 1,376,841 | 1,494,105 |
| Financial services | 8,573,963 | 69,970 | - | - | 8,643,933 | 3,591,229 | 1,277,509 | - | 4,868,738 | 3,775,195 |
| Municipal infrastructure | 758,370,551 | 61,361,724 | 117,162,606 | - | 936,894,881 | 386,797,003 | 30,847,264 | - | 417,644,267 | 519,250,614 |
| Community and social services | 10,837,090 | 1,347 | - | - | 10,838,437 | 1,164,270 | 1,018,940 | - | 2,183,210 | 8,655,228 |
| Public safety | 104,705,604 | 4,445 | - | - | 104,710,049 | 47,379,208 | 1,032,050 | - | 48,411,258 | 56,298,791 |
| Parks, sport and recreation | 11,896,979 | - | - | - | 11,896,979 | 2,130,406 | 757,067 | - | 2,887,473 | 9,009,506 |
| Local economic development and | 89,059 | - | - | - | 89,059 | 46,172 | - | - | 46,172 | 42,887 |
| Housing spatial development and | 37,894,240 | 351,059 | - | - | 38,245,299 | 1,021,367 | 374,613 | - | 1,395,980 | 36,849,319 |
| | 937,800,501 | 61,852,635 | 117,162,606 | - | 1,116,815,742 | 443,917,667 | 36,502,993 | - | 480,420,660 | 636,395,083 |

This appendix is not part of the financial statements and is unaudited

MALUTI-A-PHOFUNG MUNICIPALITY

APPENDIX D

SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE

| 2009 | | | Department | 2010 | | |
|--------------------|--------------------|--------------------|--|--------------------|--------------------|--------------------|
| Actual Income | Actual Expenditure | Surplus/ (Deficit) | | Actual Income | Actual Expenditure | Surplus/ (Deficit) |
| R | R | R | | R | R | R |
| - | 68,668,233 | (68,668,233) | Legislative authority | - | 6,257,668 | (6,257,668) |
| 426,428 | 19,526,745 | (19,100,317) | Corporate services | 592,773 | 18,080,978 | (17,488,205) |
| 360,795 | 9,342,060 | (8,981,265) | Housing spatial development and planning | 359,789 | 15,077,774 | (14,717,985) |
| - | 14,694,177 | (14,694,177) | Office of the municipal manager | 1,439,064 | 9,874,195 | (8,435,131) |
| 16,270,925 | 47,355,726 | (31,084,801) | Community and social services | 18,151,167 | 33,817,346 | (15,666,179) |
| 338,198,952 | 121,535,078 | 216,663,874 | Financial services | 427,739,656 | 196,940,033 | 230,799,623 |
| 1,079,808 | 21,427,402 | (20,347,594) | Public Safety | 656,167 | 28,664,868 | (28,008,701) |
| 1,288,818 | 16,147,534 | (14,858,716) | Parks, sport and recreation | 602,927 | 17,150,015 | (16,547,088) |
| - | 2,982,611 | (2,982,611) | Local economic development and tourism | - | 2,132,256 | (2,132,256) |
| 282,175,524 | 257,543,788 | 24,631,736 | Municipal infrastructure | 384,150,290 | 280,199,520 | 103,950,770 |
| 639,801,250 | 579,223,354 | 60,577,896 | | 833,691,833 | 608,194,653 | 225,497,180 |

This appendix is not part of the financial statements and is unaudited

MALUTI-A-PHOFUNG MUNICIPALITY

APPENDIX F

DISCLOSURE OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003 FOR THE YEAR ENDED 30 JUNE 2010

| Name of Grants | Name for Organ of State or Municipal entity | Unspent Balance | Quarterly Receipts | | | | Quarterly Expenditure | | | | Grants and subsidies delayed/ withheld | Reasons for delay / withholding of funds | Compliance with conditions (Y/N) | Reasons for non-compliance | Unspent Balance |
|--|---|-------------------|--------------------|-------------------|-------------------|-------------------|-----------------------|-------------------|-------------------|-------------------|--|--|----------------------------------|----------------------------|------------------|
| | | 01 July 2009 | September | December | March | June | September | December | March | June | | | | | 30 June 2010 |
| | | | R | R | R | R | R | R | R | R | | | | | R |
| MSIG | National Treasury | - | 735,000 | - | - | - | 384,260 | 10,740 | - | - | - | N/A | Y | N/A | 340,000 |
| MIG | National Treasury | 6,729,125 | 29,523,000 | 24,648,000 | 28,156,000 | 22,793,000 | 14,306,262 | 37,415,463 | 23,645,801 | 36,540,763 | 5,164,000 | N/A | Y | N/A | (59,164) |
| Integrated National Electrification Programme (Municipal) Grant | DME | 5,400,000 | 580,000 | - | 9,535,000 | - | 1,342,682 | 1,903,783 | 6,686,603 | 5,783,948 | - | N/A | Y | N/A | (202,016) |
| Integrated National Electrification Programme (Eskom) Grant | DME | | | | | | | | | | 4,067,000 | | | | |
| 200 RDP Houses | DPLG & Housing | 4,482,892 | - | - | - | - | - | - | 356,982 | 149,278 | - | N/A | Y | N/A | 3,976,632 |
| ICT Strategy | DBSA | 305 | 764,284 | - | 168,216 | - | 395,600 | 365,205 | - | 172,000 | - | N/A | Y | N/A | - |
| WSOSG | Dept of Water Affairs & Forestry | 4,970,250 | 3,687,000 | 3,687,500 | 3,687,250 | - | 3,687,250 | 3,449,250 | 3,925,249 | 3,687,249 | - | N/A | Y | N/A | 1,283,002 |
| RBIG (DWAF) | Dept of Water Affairs & Forestry | - | - | 10,694,794 | 11,989,895 | - | 3,134,512 | 6,161,901 | 7,693,895 | 4,299,580 | - | N/A | Y | N/A | 1,394,801 |
| FMG | National Treasury | - | 750,000 | - | - | - | - | - | - | 732,619 | - | N/A | Y | N/A | 17,381 |
| Expanded Public Works Programme Incentive Grant For Municipalities | National Treasury | - | - | 820,050 | - | - | - | - | - | - | 1,562,950 | N/A | Y | N/A | 820,050 |
| Installation and maintenance of security equipment | Department of Police, Roads & Transport | - | - | - | 10,000,000 | - | - | - | - | 3,832,756 | - | N/A | Y | N/A | 6,167,244 |
| Operation Hlasela projects | Department of Social development | - | - | - | 1,450,000 | - | - | - | - | - | - | N/A | Y | N/A | 1,450,000 |
| Intabazwe Corridor Development Grant | Department of Provincial and Local Government | 15,039,257 | - | - | - | - | 5,595,239 | 5,097,788 | 5,078,676 | 8,372,058 | - | N/A | Y | N/A | (9,104,504) |
| | | 36,621,829 | 36,039,284 | 39,850,344 | 64,986,361 | 22,793,000 | 28,845,805 | 54,404,130 | 47,387,206 | 63,570,251 | 10,793,950 | | | | 6,083,426 |

This appendix is not part of the financial statements and is unaudited

MALUTI-A-PHOFUNG MUNICIPALITY

APPENDIX G

SCHEDULE OF OTHER FINANCIAL ASSETS AS AT 30 JUNE 2010

| Name of the Institution | Account number | Maturity Date | Opening Balance | Withdrawals | Investment made | Interest Earned | Closing Balance |
|---|----------------|---------------|-------------------|--------------------|--------------------|------------------|-------------------|
| | | | R | R | R | R | R |
| Fair value through profit and loss | | | | | | | |
| Listed shares - Sanlam | 5926 | | 92,154 | - | - | 43,314 | 135,468 |
| Momentum | 87756867 | 2012/01/02 | 329,526 | - | - | 11,834 | 341,360 |
| Momentum | 87887109 | 2012/01/05 | 308,668 | - | - | 11,228 | 319,896 |
| Momentum | 87887115 | 2012/01/05 | 2,472,860 | - | - | 117,737 | 2,590,597 |
| Momentum | 87570447 | 2011/01/07 | 12,216,423 | - | - | 557,511 | 12,773,934 |
| Momentum | 88126418 | 2012/01/07 | 658,065 | - | - | 23,633 | 681,698 |
| Momentum | 89456260 | 2011/01/07 | 595,755 | 131,624 | 510,735 | 133,713 | 1,108,579 |
| Mutual | 7560376 | 2006/01/12 | 3,645,253 | - | - | - | 3,645,253 |
| Mutual | 7481893 | 2008/01/07 | 1,889,701 | - | - | - | 1,889,701 |
| Mutual | 8010226 | 2007/01/07 | 2,108,994 | - | - | - | 2,108,994 |
| Mutual | 8010223 | 2005/01/07 | 1,347,637 | - | - | - | 1,347,637 |
| Mutual | 7974326 | 2007/01/07 | 2,957,770 | - | - | - | 2,957,770 |
| Mutual | 8477284 | 2008/01/07 | 7,602,143 | - | - | - | 7,602,143 |
| Sanlam | 11690235x4 | | 474,150 | - | 9,169 | 56,097 | 539,416 |
| Sanlam | 11690236x2 | | 279,632 | - | - | 17,365 | 296,997 |
| Fair value through profit and loss | | | 36,978,731 | 131,624 | 519,904 | 972,432 | 38,339,443 |
| | | | | | | | |
| | | | | | | | |
| Loans and receivables | | | | | | | |
| ABSA Call Account | 9206600685 | | 6,290 | - | - | 1,110 | 7,400 |
| ABSA Savings | 9006721200 | | 106,306 | 260 | - | 1,631 | 107,677 |
| ABSA Collateral - JP Botha | 2054434522 | | 30,477 | - | - | 3,194 | 33,671 |
| ABSA Collateral - CE Barnard | 2057955909 | | 25,238 | - | - | 4,646 | 29,884 |
| ABSA Collateral - D Hlongwane | 2056895005 | | 29,424 | - | - | 5,219 | 34,643 |
| FNB Call Account | 62027358292 | | 13,530 | 94,369,882 | 100,000,000 | 1,152,811 | 6,796,459 |
| FNB Call Account - MIG Funds | 62199534580 | | 97,442 | - | 7,760 | 2,709 | 107,911 |
| FNB Call Account - Inthabazwe Corridor | 62212896346 | | 10,141,765 | 40,000,000 | 29,450,000 | 632,438 | 224,203 |
| Sanlam - Money Market | 50189057 | | 1,129,647 | - | - | 81,102 | 1,210,749 |
| Standard bank | 348526407 | | 9,040 | 20,001,560 | 20,000,000 | 355,282 | 362,762 |
| Loans and receivables | | | 11,589,159 | 154,371,702 | 149,457,760 | 2,240,142 | 8,915,359 |
| Non current assets | | | 1,129,647 | - | - | 81,102 | 1,210,749 |
| Current assets | | | 10,459,512 | 154,371,702 | 149,457,760 | 2,159,040 | 7,704,610 |
| GRAND TOTAL | | | 48,567,890 | 154,503,326 | 149,977,664 | 3,212,574 | 47,254,802 |

This appendix is not part of the financial statements and is unaudited



Maluti-a-Phofung Local Municipality
(Municipal demarcation code FS194)
Annual Financial Statements
for the year ended 30 June 2011

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

General Information

| | |
|--------------------------|--|
| Executive mayor | Mofumahadi Mopedi P |
| Speaker | Nthedi AM |
| Chief whip | Radebe FS |
| Mayoral committee | Lefora QW Majake MI Mohlekwa TR Mokoena JM Mokotso GT Mokubung ML Molefe-Zwane RNH Mopeli N Mosia MM Mositi MC |
| Councillors | Crockett M Dlamini PA Hlatsweayo TF Khambule MA Khoapha NA Kleynhans LM Komako AM Lebesa MB Lebesa MJ Lebesana PJ Letaoane TT Mavuso TM Mahlambi TJ Mazibuko MR Mbongo JM Mdakane HF Mkhwanazi TI Mofana MM Mhoaladi ME Mohlabi ML Mokoena DJ Motlounng MM Motaung PM Mahamuza LP Motaung SJ Mopeli MS Moseme LA |

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

General Information

| | |
|------------------------------------|--|
| | Mosikili ST |
| | Mosikidi TJ |
| | Mphonyo MA |
| | Mofokeng K |
| | Motaung ME |
| | Mojakisane NS |
| | Mpakathe MP |
| | Mokoena LE |
| | Nhlapo MA |
| | Ntamane VM |
| | Ramakarane TA |
| | Ramochela A |
| | Rantsane J |
| | Salamu MS |
| | Seobi MJ |
| | Sehlako KM |
| | Sephula PE |
| | Shabalala M |
| | Thebe TR |
| | Tolofi ME |
| | Thakhuli ND |
| | Tsotetsi MJ |
| | Zimu CT |
| Grading of local authority | Grade 9 |
| Chief finance officer (CFO) | Ramulondi TJ |
| Accounting Officer | Kau RS |
| Registered office | Cnr Moremoholo & Motlounj Streets Setsing Business Center Phuthaditjhaba 9866 |
| Postal address | Private Bag X805 Witsieshoek 9866 |
| Bankers | First National Bank Ltd |
| Auditors | Auditor General - Free State |

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

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| Statement of Financial Position | 8 |
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Appendixes:

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Abbreviations

| | |
|---------|--|
| COID | Compensation for Occupational Injuries and Diseases |
| CRR | Capital Replacement Reserve |
| DBSA | Development Bank of South Africa |
| SA GAAP | South African Statements of Generally Accepted Accounting Practice |
| GRAP | Generally Recognised Accounting Practice |
| HDF | Housing Development Fund |

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

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| | |
|-------|--|
| IAS | International Accounting Standards |
| IPSAS | International Public Sector Accounting Standards |
| ME's | Municipal Entities |
| MEC | Member of the Executive Council |
| MFMA | Municipal Finance Management Act |
| MIG | Municipal Infrastructure Grant (previously CMIP) |
| IFRS | International Financial Reporting Standards |
| IFRIC | IFRS Interpretations Committee |

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP).

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that, in all reasonable circumstances, is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2012 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors.

The annual financial statements have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2011 and were signed on its behalf by:

Kau RS
Municipal Manager

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2011.

Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet four times per annum as per its approved terms of reference. During the current year six meetings were held.

| Name of member | Number of meetings attended |
|-------------------------|-----------------------------|
| Ntsala GA (chairperson) | 6 |
| Mohlallo EM | 1 |
| Motheke MP | 2 |
| Tshake MP | 5 |

Audit committee responsibility

We report that we have adopted appropriate formal terms of reference in our charter in line with the requirements of section 166(2)(a) of the MFMA. We further report that we have conducted our affairs in compliance with this charter.

The effectiveness of internal control

The system of internal controls applied by the municipality over financial and risk management is effective, efficient and transparent. In line with the MFMA and the King II Report on Corporate Governance requirements, internal audit provides the audit committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the internal auditors, the audit report on the annual financial statements, and the management letter of the Auditor-General Free State, it was noted that no matters were reported that indicate any material deficiencies in the system of internal control or any deviations there from. Accordingly, we can report that the system of internal control over financial reporting for the period under review was efficient and effective.

The quality of in year management and monthly/quarterly reports submitted in terms of the MFMA and the Division of Revenue Act.

Evaluation of annual financial statements

We have:

- Reviewed and discussed the audited annual financial statements to be included in the annual report, with the Auditor-General;
- Reviewed the Auditor-General Free State management letter and management's response thereto;
- Reviewed changes in accounting policies and practices; and
- Reviewed significant adjustments resulting from the audit.

We concur with and accept the Auditor-General Free State's report of the annual financial statements, and are of the opinion that the audited annual financial statements should be accepted and read together with the report of the Auditor-General Free State.

Chairperson of the Audit Committee

Date: _____

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2011.

1. Review of activities

Main business and operations

The municipality is engaged in local governance activities and operates principally in South Africa.

The operating results for the year were satisfactory. The financial position of the municipality is sound.

Net surplus of the municipality was R 130,980,534 (2010: surplus R 227,371,763).

2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continues to procure funding for the ongoing operations of the municipality.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting Officer's interest in contracts

None.

5. Accounting policies

The annual financial statements have been prepared in accordance with South African Statements of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board in accordance with the Municipal Finance Management Act (Act 56 of 2003).

6. Accounting officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Kau RS

7. Auditors

The Auditor General - Free State will continue in office for the next financial period.

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Statement of Financial Position

| Figures in Rand | Note(s) | 2011 | 2010 |
|---|---------|----------------------|----------------------|
| Assets | | | |
| Current Assets | | | |
| Other financial assets | 7 | 39,102,031 | 28,075,156 |
| Inventories | 10 | 2,087,457 | 2,723,488 |
| Other receivables from exchange transactions | 11 | 35,818,697 | 75,489,706 |
| Other receivables from non-exchange transactions | 12 | 3,142,770 | 80 |
| VAT receivable | 13 | 3,705,669 | (1,406,386) |
| Trade receivables from exchange transactions | 14 | 153,215,311 | 216,630,399 |
| Cash and cash equivalents | 15 | 9,088,639 | 6,677,647 |
| Short term portion of long term consumer receivable | 16 | 11,191,435 | 3,368,798 |
| | | 257,352,009 | 331,558,888 |
| Non-Current Assets | | | |
| Property, plant and equipment | 4 | 862,826,195 | 636,395,082 |
| Intangible assets | 5 | 286,943 | - |
| Investments in controlled entities | 6 | 300 | 300 |
| Other financial assets | 7 | 3,295,397 | 19,179,646 |
| Long term receivables | 16 | 11,439,560 | 22,630,995 |
| | | 877,848,395 | 678,206,023 |
| Total Assets | | 1,135,200,404 | 1,009,764,911 |
| Liabilities | | | |
| Current Liabilities | | | |
| Other financial liabilities | 17 | 8,219,606 | 6,868,012 |
| Finance lease obligation | 18 | - | 561,595 |
| Unspent conditional grants and receipts | 19 | 33,737,953 | 11,593,876 |
| Trade and other payables from exchange transactions | 20 | 188,743,925 | 211,489,831 |
| Consumer deposits | 21 | 10,816,242 | 9,473,950 |
| Trade and other payables from non-exchange transactions | 23 | 3,891,681 | 3,855,234 |
| | | 245,409,407 | 243,842,498 |
| Non-Current Liabilities | | | |
| Other financial liabilities | 17 | 12,510,115 | 19,622,076 |
| Total Liabilities | | 257,919,522 | 263,464,574 |
| Net Assets | | 877,280,882 | 746,300,337 |
| Net Assets | | | |
| Accumulated surplus | | 877,280,882 | 746,300,337 |

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Statement of Financial Performance

| Figures in Rand | Note(s) | 2011 | 2010 |
|--|---------|----------------------|----------------------|
| Revenue | | | |
| Property rates | 24 | 132,112,110 | 148,349,730 |
| Service charges | 25 | 222,289,096 | 253,222,640 |
| Rendering of services | 26 | 567,274 | 580,890 |
| Government grants & subsidies | 27 | 465,563,245 | 393,450,235 |
| Rental income | 28 | 312,507 | 226,778 |
| Fines | | 464,529 | 282,471 |
| Other income | 29 | 2,733,047 | 2,228,150 |
| Interest received - investment | 35 | 7,567,995 | 3,405,899 |
| Reversal of allowance for bad debt | 60 | - | 20,797,249 |
| Interest received - consumers | 62 | 24,361,235 | 4,739,005 |
| Total Revenue | | 855,971,038 | 827,283,047 |
| Expenditure | | | |
| General expenses | 30 | (45,607,445) | (52,390,441) |
| Personnel cost | 32 | (155,156,965) | (130,805,616) |
| Remuneration of councilors | 33 | (15,168,216) | (16,965,360) |
| Community project expenditure | 34 | (33,679,072) | (40,423,875) |
| Depreciation and amortisation | 37 | (39,124,904) | (36,340,892) |
| Impairment loss/ Reversal of impairments | 60 | (62,104,595) | - |
| Finance costs | 38 | (3,115,632) | (3,997,662) |
| Contracted services | 41 | (66,960,466) | (70,984,184) |
| Grants and subsidies paid | 42 | (68,499,000) | (61,788,998) |
| Bulk purchases | 43 | (237,515,076) | (166,547,817) |
| Repairs and maintenance | 61 | (7,045,470) | (19,534,815) |
| Total Expenditure | | (733,976,841) | (599,779,660) |
| Fair value adjustments | 36 | 8,986,337 | (131,624) |
| Surplus for the year | | 130,980,534 | 227,371,763 |

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Statement of Changes in Net Assets

| Figures in Rand | Accumulated surplus | Total net assets |
|--|---------------------|--------------------|
| Opening balance as previously reported | 527,895,107 | 527,895,107 |
| Adjustments | | |
| Prior year adjustments - refer to note 47 | (8,966,533) | (8,966,533) |
| Balance at 01 July 2009 as restated | 518,928,574 | 518,928,574 |
| Surplus for the year | 227,371,763 | 227,371,763 |
| Total changes | 227,371,763 | 227,371,763 |
| Balance at 01 July 2010 | 746,300,348 | 746,300,348 |
| Changes in net assets | | |
| Surplus for the year | 130,980,534 | 130,980,534 |
| Total changes | 130,980,534 | 130,980,534 |
| Balance at 30 June 2011 | 877,280,882 | 877,280,882 |

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Cash Flow Statement

| Figures in Rand | Note(s) | 2011 | 2010 |
|---|---------|-----------------------------|-----------------------------|
| Cash flows from operating activities | | | |
| Receipts | | | |
| Sale of goods and services | | 425,632,281 | 333,944,318 |
| Grants | | 487,707,324 | 372,277,515 |
| Interest income | | 7,567,995 | 3,405,899 |
| Other receipts | | 42,930,072 | 2,737,799 |
| | | <u>963,837,672</u> | <u>712,365,531</u> |
| Payments | | | |
| Employee costs | | (169,188,213) | (147,767,630) |
| Suppliers | | (368,799,935) | (216,672,267) |
| Finance costs | | (3,115,632) | (3,997,662) |
| Other payments | | (165,113,811) | (136,124,122) |
| | | <u>(706,217,591)</u> | <u>(504,561,681)</u> |
| Net cash flows from operating activities | 44 | <u>257,620,081</u> | <u>207,803,850</u> |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 4 | (257,432,515) | (179,015,241) |
| Purchase of other intangible assets | 5 | (287,467) | - |
| Proceeds from sale of financial assets | | 4,857,229 | 1,189,224 |
| Purchase of long term receivables | | - | (7,255,406) |
| Proceeds from sale of long term receivables | | 3,368,798 | - |
| Net cash flows from investing activities | | <u>(248,887,128)</u> | <u>(185,081,423)</u> |
| Cash flows from financing activities | | | |
| Proceeds from other financial liabilities | | - | 18,652,327 |
| Repayment of other financial liabilities | | (5,760,367) | (3,770,553) |
| Finance lease payments | | (561,595) | (1,149,987) |
| Net cash flows from financing activities | | <u>(6,321,962)</u> | <u>13,731,787</u> |
| Net increase/(decrease) in cash and cash equivalents | | 2,410,991 | 36,454,214 |
| Cash and cash equivalents at the beginning of the year | | 6,677,647 | (29,776,568) |
| Cash and cash equivalents at the end of the year | 15 | <u>9,088,638</u> | <u>6,677,646</u> |

Maluti-a-Phofung Local Municipality

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Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1. Reporting municipality

Maluti-a-Phofung Local Municipality ("the municipality") is a local government institution in Phuthaditjhaba town in the Thabo Mofutsanyana district, Free State Province. Its principal activities and the address of its principal place of business are disclosed under "General Information" in the annual report.

2. Presentation of annual financial statements

2.1 Statement of compliance

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

Accounting policies for material transactions, events or conditions not covered by the GRAP reporting framework, have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3 and the hierarchy approved in Directive 5 issued by the Accounting Standards Board.

The following significant accounting policies had been applied consistently during the current and previous reporting period.

2.2 Going concern assumption

These annual financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next twelve months.

2.3 Presentation currency

These annual financial statements are presented in South African Rand, which is the municipality's functional currency. All financial information has been rounded to the nearest Rand.

2.4 Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the municipality has a legal right to set off amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

2.5 Investments in controlled entities

Investments in controlled entities are carried at cost less any accumulated impairment.

The cost of an investment in a controlled entity is the aggregate of:

- the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the municipality; plus
- any cost directly attributable to the purchase of the controlled entity.

An adjustment to the cost of a business combination contingent on future events is included in the cost of the combination if the adjustment is probable and can be measured reliably.

2.6 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost or fair value of the item can be measured reliably.

Initial recognition and measurement

Items of property, plant and equipment are initially measured at cost on acquisition date.

Cost includes expenditure that is directly attributable to the acquisition of the asset and to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset, a monetary asset or a combination of monetary and non-monetary assets, the cost of the asset acquired is initially measured at fair value. If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to or to replace part of it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

2.6 Property, plant and equipment (continued)

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Subsequent measurement

Property, plant and equipment are carried at cost less accumulated depreciation and any impairment losses.

Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset less its residual value, depreciated on the straight line basis over their expected useful lives.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Depreciation commences when an asset is available for use and ceases at the earlier of the date that the asset is derecognised or classified as held for sale in accordance with GRAP 100 *Non-current assets held for sale and discontinued operations*. A non-current asset or disposal group is not depreciated while it is classified as held for sale.

The useful lives of items of property, plant and equipment have been assessed and are as follows:

| Item | Estimated useful life |
|-----------------------|-----------------------|
| Bins and containers | 3-5 years |
| Buildings | 25-30 years |
| Community assets | 25-30 years |
| Heritage assets | 5-30 years |
| Infrastructure assets | |
| • Electricity | 3-30 years |
| • Housing | 10-40 years |
| • Pedestrian malls | 20-30 years |
| • Roads and paving | 10-30 years |
| • Sewerage | 5-20 years |
| • Water | 5-20 years |
| IT equipment | 3-10 years |
| Land | Indefinite |
| Landfill sites | 30-55 years |
| Leased assets | |
| • Office equipment | Lease term |
| Motor vehicles | |
| • Fire engines | 5-10 years |
| • Heavy duty vehicles | 5-7 years |
| • Other | 4-10 years |
| Office equipment | |
| • Airconditioners | 3-5 years |
| • Office machines | 5-7 years |
| Other assets | |

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

2.6 Property, plant and equipment (continued)

| | |
|--------------------------|------------|
| • Audio visual equipment | 5-10 years |
| • Furniture and fittings | 3-10 years |
| • Emergency equipment | 3-7 years |
| • Kitchen equipment | 5-10 years |
| Plant and machinery | 1-20 years |

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate in the statement of financial performance.

Each part of an item of property plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Derecognition

An item of property, plant and equipment is derecognised on disposal or when no future economic benefits or service potential is expected from its continued use or disposal.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within in surplus or deficit when the item is derecognised.

Compensation from third parties for an item of property, plant and equipment that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

2.7 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from the municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separated from the municipality or from other rights and obligations.

Intangible assets are initially measured at cost.

Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in surplus or deficit when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. An intangible asset arising from development is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale;
- there is an intention to complete and use or sell it;
- there is an ability to use or sell it;
- it will generate probable future economic benefits or service potential;
- there are available technical, financial and other resources to complete the development and to use or sell the asset; and
- the expenditure attributable to the asset during its development can be measured reliably.

Other development expenditure is recognised in surplus or deficit as incurred.

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2.7 Intangible assets (continued)

Subsequent to initial recognition, intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses.

Other intangible assets

Other intangible assets that are acquired by the municipality and have finite useful lives are initially recognised at cost and subsequently measured at cost less accumulated amortisation and accumulated impairment losses.

Where an intangible asset is acquired at no cost, or for a nominal cost, the cost is deemed to be its fair value as at the date of acquisition.

Servitudes created through the exercise of legislation are not recognised as intangible assets and any costs incurred to register these servitudes are expensed. Servitudes, however, that are created through an agreement (contract) are recognised as intangible assets.

Amortisation

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortisation is recognised in surplus or deficit on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

| Item | Useful life |
|--------------------------|-------------|
| Computer software, other | 2 - 5 years |

Where intangible assets are deemed to have an indefinite useful life, such intangible assets are not amortised.

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

The estimated useful life of an intangible asset in a service concession arrangement is the period from when the municipality is able to charge the public for the use of the infrastructure to the end of the concession period.

2.8 Financial instruments

Initial recognition

Financial instruments are recognised when the municipality becomes a party to the contractual provisions of the instruments.

Classification

The municipality classifies financial instruments, or their component parts, on initial recognition as financial assets, financial liabilities or equity instruments in accordance with the substance of the contractual arrangement.

The municipality classifies financial instruments into the following categories:

- Financial assets at fair value through surplus or deficit - designated
- Loans and receivables

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at

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2.8 Financial instruments (continued)

initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Financial assets at fair value through surplus or deficit

Financial assets are designated as at fair value through surplus or deficit. There is no specific intention on the part of the municipality to keep these shares to maturity and the decision to sell may be taken at any time.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less an allowance for impairment losses.

Cash includes cash-on-hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. Bank overdrafts that are repayable on demand and form an integral part of the municipality's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value plus direct transaction cost, and are subsequently measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the receivables, probability that the receivable will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in the statement of financial performance.

Trade and other receivables are classified as loans and receivables.

Initial recognition and measurement

Financial instruments are measured initially at fair value.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

Regular way purchases of financial assets are accounted for at trade date.

Subsequent measurement

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and

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Accounting Policies

2.8 Financial instruments (continued)

losses arising from changes in fair value being included in surplus or deficit for the period.

Dividend income is recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Fair value information for trade and other receivables is determined as the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially measured at fair value and subsequently cash and cash equivalents are classified as loans and receivables, measured at amortised cost, using the effective interest rate method.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the substance of the contractual agreement.

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2.8 Financial instruments (continued)

Trade and other payables

Trade and other payables are initially measured at fair value less direct transaction costs and are subsequently measured at amortised cost, using the effective interest rate method.

Bank overdraft, borrowings and trade and other payables are classified as financial liabilities carried at amortised cost.

Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down to its recoverable amount and an impairment loss is charged to the statement of financial performance.

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- A gain or loss on a financial asset or financial liability classified at fair value through surplus or deficit is recognised in surplus or deficit; and
- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
 - has transferred substantially all the risks and rewards of the asset, or
 - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the municipality's continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is

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2.8 Financial instruments (continued)

recognised in the statement of financial performance.

2.9 Inventories

Initial recognition

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their cost are their fair value as at the date of acquisition.

Cost

The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventory to its present location and condition.

Subsequent measurement

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Inventories are measured at the lower of cost and current replacement cost where they are held for:

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Current replacement cost is the cost the municipality will incur to acquire the asset on the reporting date.

Cost is generally determined using the first-in-first-out principle except where stated otherwise (the same formula is used for all inventories having a similar nature and use to the municipality).

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

2.10 Impairment

Financial assets

A financial asset, not carried at fair value through profit or loss, is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

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Accounting Policies

2.10 Impairment (continued)

Reversals of impairment losses are recognised in surplus or deficit.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Non-financial assets

Cash generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation and amortisation.

The carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

An impairment loss is recognised if the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in surplus or deficit.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance cost.

Depreciation or amortisation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs to sell and its value in use.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

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Accounting Policies

2.10 Impairment (continued)

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a cash and non-cash generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash and non-cash generating asset or non-cash generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Value in use

Value in use of a cash and non-cash generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructurings or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts cover a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country in which the municipality operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a

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Accounting Policies

2.10 Impairment (continued)

- reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash and non-cash generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash and non-cash generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality uses management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the

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Accounting Policies

2.10 Impairment (continued)

carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the municipality does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash and non-cash generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash and non-cash generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash and non-cash generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash and non-cash generating asset is adjusted in future periods to allocate the non-cash generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

2.11 Revenue

Revenue from exchange transactions includes revenue from trading activities and other services provided while revenue from non-exchange transactions includes rates levied, fines, donations and grants from other spheres of government.

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2.11 Revenue (continued)

Revenue from exchange transaction

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Revenue from exchange transaction

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
 - it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
 - the stage of completion of the transaction at the reporting date can be measured reliably; and
 - the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.
- When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by surveys of work performed.

Interest and dividends

Interest earned and dividends received

Revenue arising from the use by others of municipal assets yielding interest and dividends is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

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(continued)

Dividends, or their equivalents are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Other

Tariff charges

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorised tariff. This includes the issuing of licences and permits.

Housing rental and instalments

Finance income from the sale of housing by way of instalment sales agreements or finance leases is recognised as it accrues in surplus or deficit using the effective interest method.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the municipality receives value from another entity without directly giving approximately equal value in exchange.

Revenue from non-exchange transactions is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, the amount of the revenue can be measured reliably and, if applicable, there has been compliance with the relevant legal requirements or restrictions.

Rates and taxes

Revenue from rates, including collection charges and penalty interest, is recognised on a monthly basis when the taxes are levied as this is regarded to be the date when it is probable that the economic benefits or service potential will flow to the municipality, the amount of the revenue can be measured reliably and there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Fines

Revenue from the issuing of fines is recognised when it is probable that the economic benefits or service potential will flow to the municipality and the amount of the revenue can be measured reliably.

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Revenue from non-exchange transactions (continued)

Where the municipality collects fines in the capacity of an agent, the fines will not be revenue of the collecting entity.

Other grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

Donations are measured at the fair value of the consideration received or receivable when the amount of the revenue can be measured reliably. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the conditions embodied in the agreement. To the extent that the conditions have not been met a liability is recognised.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability.

Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

2.12 Provisions

A provision is recognised if, as a result of a past event, the municipality has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditure

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Accounting Policies

2.12 Provisions (continued)

expected to be required to settle the obligation. The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

Provisions are not recognised for future operating losses.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when the municipality:

- 1) has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- 2) has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 45.

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- subject to the second bullet, changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and

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Accounting Policies

2.12 Provisions (continued)

- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in surplus or deficit.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

2.13 Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. The municipality must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the municipality's accounting policies for the individual assets. Subsequently, non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

2.14 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected unit credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

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Accounting Policies

2.14 Employee benefits (continued)

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the municipality is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. The expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduced by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

Other long-term employee benefits

Long-service bonus

In addition to normal vacation leave, an employee shall qualify for the following additional leave together with the following monetary award as recognition for continued service at the completion of the following:

| | Additional accumulated leave | Monetary award (of annual salary) |
|----------------------------|------------------------------------|---|
| Less than 5 years' service | 5 days | 2% |
| 5 - 10 years' service | 10 days | 3% |
| 10 - 15 years' service | 15 days | 4% |
| 15 - 20 years' service | 15 days | 5% |
| 20 - 25 years' service | 15 days | 6% |
| 25 - 30 years' service | 15 days | 6% |
| 30 - 35 years' service | 15 days | 6% |
| 35 - 40 years' service | 15 days | 6% |
| 40 - 45 years' service | 15 days | 6% |

On termination of service, an employee shall be paid his leave entitlement, including the leave mentioned above, and calculated in terms of the relevant provisions of the Basic Conditions of Employment Act 75 of 1997.

The initial date of appointment of an employee shall be maintained for the purposes of determining the actual service period of the employee and for the calculation of the long service bonus.

The long service leave must be taken within one year of receiving such leave or may be wholly or partially encashed.

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Accounting Policies

2.15 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases - municipality as lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased item or, if lower, the present value of the minimum lease payments at the commencement of the lease term. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

The minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of payment on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - municipality as lessee

Operating lease payments are recognised in surplus or deficit on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

Operating leases - municipality as lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term. The difference between the amount recognised as revenue and the contractual payments are recognised as an operating lease asset or liability.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in the statement of financial performance.

Finance sale and leaseback

Where the sale and leaseback results in a finance lease, any excess of sales proceeds over the carrying amount of the asset is not recognised immediately as revenue in the annual financial statements of the seller – lessee. The excess amount is deferred and amortised over the lease term.

Operating sale and leaseback

Where the sale and leaseback results in an operating lease the transaction is accounted for as follows:

- If the transaction is concluded at fair value, any gain or loss is recognised immediately.
- If the sale price is below fair value, any gain or loss is recognised immediately except that, if the loss is

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Accounting Policies

2.15 Leases (continued)

compensated for by future lease payments at below market price, it is deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used.

- If the sale price is above fair value, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used.

2.16 Borrowing costs

Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

2.17 Value added tax (VAT)

The municipality accounts for VAT on the cash basis. The municipality is liable to account for VAT at the standard rate (14%) in terms of section 7 (1) (a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipality accounts for VAT on a monthly basis.

2.18 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the MFMA (Act No 56 of 2003). Unauthorised expenditure is accounted for as an expense and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

2.19 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the MFMA (Act No 56 of 2003), the Municipal Systems Act (Act No 32 of 2000) and the Public Office Bearers Act (Act No 20 of 1998) or is in contravention of the municipality's supply chain management policies. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as an expense in the statement of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

2.20 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

2.21 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

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Accounting Policies

2.22 Accounting estimates and judgements

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables, loans and receivables

The municipality assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Provisions

These provisions represent management's best estimate based on the information available. The probability that an outflow of economic resources will be required to settle the obligation must be assessed and a reliable estimate must be made of the amount of the obligation. Actual results may, however, differ from these estimates.

Impairment testing

The recoverable service amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less cost to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill, if any, and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time.

Allowance for slow moving, damaged and obsolete inventory

Management has made estimates of the selling price and direct cost to sell of certain inventory items to calculate the allowance to write inventories down to the lower of cost or net realisable value. The write down is included in surplus or deficit.

An allowance is made for slow moving, damaged and obsolete damaged inventory, to write inventory down to the lower of cost or net realisable value (or current replacement cost where inventory are held in distribution or for consumption in the production process at no charge or for a nominal charge).

Fair value estimation

The fair value information presented by the municipality in note 8 requires the application of valuation techniques and assumptions based on market conditions existing at the end of the reporting period. The actual fair values may differ

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Accounting Policies

2.22 Accounting estimates and judgements (continued)

from those estimated.

Critical judgements in applying accounting policies

Depreciation and the carrying value of items of property, plant and equipment

The estimation of the useful lives of assets is based on management's judgement. Any material adjustment to the estimated remaining useful lives of items of property, plant and equipment will have an impact on the carrying value of these items. The estimation is based on the pattern in which an assets future economic benefits as service potential are expected to be consumed by the municipality.

Identification of impairment indicators

Management is required to make judgements concerning the cause, timing and amount of impairment. In the identification of impairment indicators, management considers the impact of changes in current competitive conditions, cost of capital, availability of funding, technological obsolescence, discontinuance of services and other circumstances that could indicate that impairment exists. The municipality applies the impairment assessment to its assets or separate cash generating units. This requires management to make significant judgements and estimates concerning the existence of impairment indicators, separate cash generating units, remaining useful lives of assets, projected cash flows and net realisable values. Management's judgement is also required when assessing whether a previously recognised impairment loss should be reversed.

Effective interest rate

The municipality uses an interest rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Allowance for doubtful debts

On receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the receivables carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

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Accounting Policies

2.23 Budget information

Municipalities are typically subject to budgetary limits in the form of appropriations or budget authorisations, which is given effect through authorising legislation.

General purpose financial reporting by municipalities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The statement of comparison between the budget and actual information have been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

The annual financial statements and the budget are not on the same basis of accounting therefore a reconciliation between the statement of financial performance and the budget have been included in the annual financial statements. Refer to note 53.

Comparative information is not required.

2.24 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned or controlled by the South African government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Related party disclosures for transactions between government entities that took place on terms and conditions that are considered in arms length and in the ordinary course of business are not disclosed in accordance with IPSAS 20 Related Party Disclosure.

Key management is defined as being individuals with the authority and responsibility for planning, directing and controlling the activities of the municipality. We regard all individuals from the level of Municipal Manager, executive directors and council members as key management per the definition of the financial reporting standard.

Close family members of key management personnel are considered to be those family members who may be expected to influence, or to be influenced by key management individuals, in their dealings with the municipality.

Related party disclosures for transactions between the municipality and related parties that took place are disclosed in note 46.

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| Figures in Rand | 2011 | 2010 |
|-----------------|------|------|
|-----------------|------|------|

3. New standards and interpretations

3.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

IGRAP 1: Interpretation of GRAP: Applying the Probability Test on Initial Recognition of Exchange Revenue

The municipality assesses the probability of each transaction on an individual basis when it occurs. The municipality shall not assess the probability on an overall level based on the payment history of recipients of the service in general when the probability of revenue is assessed at initial recognition.

The full amount of revenue will be recognised at initial recognition. Assessing impairment is an event that takes place subsequently to initial recognition. Such impairment is an expense. Revenue is not reduced by this expense.

The effective date of the interpretation is for years beginning on or after 01 April 2010.

The impact of the interpretation is not material.

GRAP 25: Employee benefits

The objective of GRAP 25 is to prescribe the accounting and disclosure for employee benefits. The standard requires the municipality to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when an municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

GRAP 25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

The standard also includes detailed requirements to be applied in the accounting for:

- Post-employment benefits;
- Other long-term employee benefits; and
- Termination benefits

The effective date of the interpretation is for years beginning on or after 01 April 2010.

The impact of the standard is not material.

3.2 Standards issued and not yet effective

The following standards expected to be applicable to the municipality have been issued, but are not yet effective:

The GRAP standards below will be applied by the municipality from the effective date determined by the Minister of Finance.

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing

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3. New standards and interpretations (continued)

performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which the municipality reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of the municipality that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by the municipality within a particular region.

The effective date of the standard is for years beginning on or after 01 July 2011.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 23: Revenue from Non-exchange Transactions (Taxes and Transfers)

Revenue from non-exchange transactions arises when an entity receives value from another entity without directly giving approximately equal value in exchange. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.

This revenue will be measured at the amount of increase in net assets recognised by the municipality.

An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is recognised for the same inflow. As an entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it will reduce the carrying amount of the liability and recognise an amount equal to that reduction as revenue.

The effective date of the standard is for years beginning on or after 01 July 2011.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 24: Presentation of Budget Information

The municipality is required to present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

- the approved and final budget amounts;
- the actual amounts on a comparable basis; and
- by way of note disclosure, an explanation of material differences between the budget for which the municipality is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

Where the municipality prepares its budget and annual financial statements on a comparable basis, it is required to include the comparison as an additional column in the primary annual financial statements.

Where the budget and annual financial statements are not prepared on a comparable basis, a separate statement is prepared called the 'statement of comparison of budget and actual amounts'. This statement compares the budget amounts with the amounts in the annual financial statements adjusted to be comparable to the budget.

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3. New standards and interpretations (continued)

The effective date of the standard is for years beginning on or after 01 July 2011.

Although the municipality currently presents budget information in terms of legislation, additional disclosure is required in terms of GRAP 24.

The standard will however not impact the measurement of figures presented in the annual financial statements and will only result in additional detail being disclosed in relation to the budget.

The effective date of the standard is for years beginning on or after 01 April 2011.

GRAP 103: Heritage Assets

Heritage assets are assets which have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Certain heritage assets are described as inalienable items which means that they are retained indefinitely and cannot be disposed of without consent as required by law or otherwise.

A heritage asset is recognised as an asset only if:

- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Heritage assets are recognised at cost unless they are acquired through a non-exchange transaction, in which case they are recognised at their fair value as at the date of acquisition.

The municipality has a choice between the cost and revaluation model as an accounting policy for subsequent measurement and is required to apply the chosen policy to an entire class of heritage assets.

Heritage assets are subsequently carried at their cost or revalued amount less accumulated impairment. These assets are not depreciated.

The effective date of the standard is for years beginning on or after 01 April 2011.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 21: Impairment of Non-cash-generating Assets

Non-cash-generating assets are assets other than cash-generating assets.

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, an entity estimates the recoverable service amount of the asset.

The present value of the remaining service potential of a non-cash-generating asset is determined using one of the following approaches:

- Depreciated replacement cost approach
- Restoration cost approach
- Service units approach

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3. New standards and interpretations (continued)

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

The effective date of the standard is for years beginning on or after 01 April 2011.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 26: Impairment of Cash-generating Assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset. When estimating the value in use of an asset, the municipality should estimate the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality should apply the appropriate discount rate to those future cash flows.

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

The effective date of the standard is for years beginning on or after 01 April 2011.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 104: Financial Instruments

The standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments. Financial instruments are defined as those contracts that results in a financial asset in one entity and a financial liability or residual interest in another entity. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.

One of the key considerations in initially recognising financial instruments is the distinction, by the issuers of those instruments, between financial assets, financial liabilities and residual interests.

Financial assets and financial liabilities are distinguished from residual interests because they involve a contractual right or obligation to receive or pay cash or another financial instrument.

Residual interests entitle an entity to a portion of another entity's net assets in the event of liquidation and, to dividends or similar distributions paid at management's discretion.

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3. New standards and interpretations (continued)

The standard contains further detailed guidance on the initial recognition, measurement and subsequent measurement of financial instruments and mainly distinguished between those financial instruments carried at fair value and those at amortised cost.

The effective date of the standard is for years beginning on or after 01 April 2011.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 105: Transfer of functions between entities under common control

GRAP 105 establishes accounting policies for the acquirer and transferor in a transfer of functions between entities under common control.

The effective date of the standard is for years beginning on or after 01 April 2011.

The impact of this standard is currently being assessed.

GRAP 106: Transfer of functions between entities not under common control

GRAP 106 establishes accounting principles for the acquirer in a transfer of functions between entities not under common control.

The effective date of the standard is for years beginning on or after 01 April 2011.

The impact of this standard is currently being assessed.

GRAP 107: Mergers

Establishes accounting principles for the combined entity and combining entities in a merger. The standard will be applied to a transaction or event where no acquirer can be identified.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

Improvements

Improvements are proposed to the following standards of GRAP as part of the Accounting Standards Board's improvement project:

- GRAP 1 - 4
- GRAP 9 - 14
- GRAP 16, 17, 19 and 100
- IAS 39

The effective date of these standards is for years beginning on or after 1 April 2011.

The municipality is unable to reliably estimate the impact of the standard on the annual financial statements.

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3. New standards and interpretations (continued)

Interpretations to the Standards of GRAP

The following standards of GRAP are affected by the Interpretations issued:

- GRAP 9 and 10
- GRAP 13
- GRAP 19

The effective date of these standards is for years beginning on or after 1 April 2011.

The municipality is unable to reliably estimate the impact of the standard on the annual financial statements.

Interpretations

The list of interpretations are as follows:

- IGRAP 2 – Changes in Existing Decommissioning, Restoration and similar Liabilities
- IGRAP 3 - Determining Whether an Arrangement Contains a Lease
- IGRAP 4 – Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IGRAP 5 – Applying the Restatement Approach under the Standard of GRAP on Financial Reporting in Hyperinflationary Economies
- IGRAP 6 – Loyalty Programmes
- IGRAP 7 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction
- IGRAP 8 – Agreements for the Construction of Assets from Exchange Transactions
- IGRAP 9 - Distributions of Non cash Assets to Owners
- IGRAP 10 – Assets Received from Customers
- IGRAP 13 – Operating Leases – Incentives
- IGRAP 14 – Evaluating the Substance of Transactions Involving the Legal Form of a Lease
- IGRAP 15 – Revenue – Barter Transactions Involving Advertising Services

The effective date of the standard is for years beginning on or after 1 April 2011.

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4. Property, plant and equipment

| | 2011 | | | 2010 | | |
|-----------------------|----------------------|--|--------------------|----------------------|--|--------------------|
| | Cost / Valuation | Accumulated depreciation and impairment losses | Carrying value | Cost / Valuation | Accumulated depreciation and impairment losses | Carrying value |
| Buildings and land | 99,708,367 | (3,252,894) | 96,455,473 | 49,514,405 | (2,580,565) | 46,933,840 |
| Community assets | 12,868,461 | (2,021,708) | 10,846,753 | 12,868,460 | (1,589,989) | 11,278,471 |
| Heritage assets | 92,376 | (10,292) | 82,084 | 92,376 | (7,216) | 85,160 |
| Infrastructure assets | 1,111,671,134 | (484,601,301) | 627,069,833 | 868,250,840 | (454,071,220) | 414,179,620 |
| Landfill sites | 1,610,480 | (681,865) | 928,615 | 1,610,480 | (571,609) | 1,038,871 |
| Other assets | 76,497,972 | (27,725,301) | 48,772,671 | 34,376,949 | (20,970,580) | 13,406,369 |
| Work in progress | 78,670,766 | - | 78,670,766 | 149,472,751 | - | 149,472,751 |
| Total | 1,381,119,556 | (518,293,361) | 862,826,195 | 1,116,186,261 | (479,791,179) | 636,395,082 |

Reconciliation of property, plant and equipment - 2011

| | Opening balance | Additions | Revaluations | Depreciation | Total |
|-----------------------|--------------------|--------------------|------------------|---------------------|--------------------|
| Buildings and land | 46,933,840 | 50,197,410 | - | (675,777) | 96,455,473 |
| Community assets | 11,278,471 | - | - | (431,718) | 10,846,753 |
| Heritage assets | 85,160 | - | - | (3,076) | 82,084 |
| Infrastructure assets | 414,179,620 | 242,735,083 | - | (29,844,870) | 627,069,833 |
| Landfill sites | 1,038,871 | - | - | (110,256) | 928,615 |
| Other assets | 13,406,369 | 35,302,007 | 8,122,977 | (8,058,682) | 48,772,671 |
| Work in progress | 149,472,751 | (70,801,985) | - | - | 78,670,766 |
| | 636,395,082 | 257,432,515 | 8,122,977 | (39,124,379) | 862,826,195 |

Reconciliation of property, plant and equipment - 2010

| | Opening balance | Additions | Depreciation | Total |
|-----------------------|--------------------|--------------------|---------------------|--------------------|
| Buildings and land | 47,625,915 | - | (692,075) | 46,933,840 |
| Community assets | 9,096,021 | 2,549,246 | (366,796) | 11,278,471 |
| Heritage assets | 88,233 | - | (3,073) | 85,160 |
| Infrastructure assets | 383,772,418 | 59,106,206 | (28,699,004) | 414,179,620 |
| Landfill sites | 1,149,268 | - | (110,397) | 1,038,871 |
| Other assets | 19,678,733 | 197,183 | (6,469,547) | 13,406,369 |
| Work in progress | 32,310,145 | 117,162,606 | - | 149,472,751 |
| | 493,720,733 | 179,015,241 | (36,340,892) | 636,395,082 |

Pledged as security

None of the assets have been pledged as security.

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4. Property, plant and equipment (continued)

Assets subject to finance lease

| | | |
|-----------------------------------|---|---------|
| Office equipment (carrying value) | - | 332,818 |
|-----------------------------------|---|---------|

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

None of the assets are currently under a finance lease.

5. Intangible assets

| | 2011 | | | 2010 | | |
|--------------------------|---------------------|-----------------------------|----------------|---------------------|-----------------------------|----------------|
| | Cost / Valuation | Accumulated amortisation | Carrying value | Cost / Valuation | Accumulated amortisation | Carrying value |
| Computer software, other | 916,948 | (630,005) | 286,943 | 629,481 | (629,481) | - |

Reconciliation of intangible assets - 2011

| | Opening balance | Additions | Amortisation | Total |
|--------------------------|--------------------|-----------|--------------|---------|
| Computer software, other | - | 287,467 | (524) | 286,943 |

Reconciliation of intangible assets - 2010

| | Opening balance | Amortisation | Total |
|--------------------------|--------------------|--------------|-------|
| Computer software, other | 162,101 | (162,101) | - |

Pledged as security

None of the intangible assets have been pledged as security.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

None of the assets are currently under a finance lease.

6. Investments in controlled entities

| Name of company | Held by | % holding 2011 | % holding 2010 | Carrying amount 2011 | Carrying amount 2010 |
|----------------------------------|-------------------------------|-------------------|-------------------|-------------------------|-------------------------|
| Maluti-a-Phofung Water (Pty) Ltd | Maluti-a-Phofung Municipality | 100 % | 100 % | 300 | 300 |

The carrying amounts of controlled entities are shown net of impairment losses.

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| 7. Other financial assets | | |
| At fair value through profit or loss - designated | | |
| Listed shares | 163,320 | 135,468 |
| Sanlam | 315,027 | 836,413 |
| Momentum | 15,099,318 | 17,816,064 |
| Old Mutual | 23,925,909 | 19,551,498 |
| | 39,503,574 | 38,339,443 |
| Loans and receivables | | |
| Sanlam | 1,282,562 | 1,210,749 |
| First National Bank | 85,646 | 7,120,813 |
| ABSA | 219,907 | 213,275 |
| Standard bank | 63,051 | 362,762 |
| First National Bank | - | 7,760 |
| Old Mutual | 1,242,688 | - |
| | 2,893,854 | 8,915,359 |
| Total other financial assets | 42,397,428 | 47,254,802 |
| Non-current assets | | |
| At fair value through profit or loss - designated | 770,147 | 17,968,897 |
| Loans and receivables | 2,525,250 | 1,210,749 |
| | 3,295,397 | 19,179,646 |
| Current assets | | |
| At fair value through profit or loss | 38,733,427 | 20,370,546 |
| Loans and receivables | 368,604 | 7,704,610 |
| | 39,102,031 | 28,075,156 |
| | 42,397,428 | 47,254,802 |

Fair value information

Financial assets at fair value through profit or loss are recognised at fair value, which is therefore equal to their carrying amounts.

The following classes of financial assets at fair value through surplus or deficit are measured at fair value using quoted market prices:

- Listed shares

Where quoted market prices are not available, valuation techniques are used to determine fair value, as explained below:

The fair value of unlisted investments were estimated using the fund value as determined by the institution. The fair value is determined annually at the reporting date.

Fair value hierarchy of financial assets at fair value through surplus or deficit

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7. Other financial assets (continued)

For financial assets recognised at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements.

Level 1 - quoted prices (unadjusted) in active markets for identical assets.

Level 2 - inputs other than quoted prices included in level 1 that are observable for the assets either directly (as prices) or indirectly (derived from prices).

Level 3 - inputs which are not based on observable market data.

Level 1

| | | |
|---------------|---------|---------|
| Listed shares | 163,320 | 135,468 |
|---------------|---------|---------|

Level 2

| | | |
|----------------------|-------------------|-------------------|
| Unlisted investments | 34,359,015 | 38,203,975 |
| | 34,522,335 | 38,339,443 |

Renegotiated terms

None of the financial assets that are fully performing have been renegotiated in the last year.

The municipality has not reclassified any financial assets from cost or amortised cost to fair value, or from fair value to cost or amortised cost during the current or prior year.

Fair values of loans and receivables

| | | |
|-----------------------|-----------|-----------|
| Loans and receivables | 2,893,854 | 8,915,359 |
|-----------------------|-----------|-----------|

The fair value of loans and receivables were estimated using the fund value as determined by the institution. The fair value is determined annually at the reporting date.

Loans and receivables past due but not impaired

Loans and receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2011, no accounts were past due.

The maximum exposure to credit risk at the reporting date is the fair value of each class of loan mentioned above. The municipality does not hold any collateral as security.

Credit quality of other financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

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|-----------------|------|------|

8. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

2011

| | Loans and receivables | Fair value through surplus or deficit - designated | Total |
|--|--------------------------|--|--------------------|
| Cash and cash equivalents | 9,088,639 | - | 9,088,639 |
| Consumer receivables | 153,215,311 | - | 153,215,311 |
| Consumer receivables - long term | 22,630,995 | - | 22,630,995 |
| Other financial assets (non-current) | 2,525,250 | 770,147 | 3,295,397 |
| Other financial assets (current) | 368,606 | 38,733,427 | 39,102,033 |
| Other receivables from exchange transactions | 35,818,697 | - | 35,818,697 |
| Other receivables from non-exchange transactions | 3,142,770 | - | 3,142,770 |
| | 226,790,268 | 39,503,574 | 266,293,842 |

2010

| | Loans and receivables | Fair value through surplus or deficit - designated | Total |
|--|--------------------------|--|--------------------|
| Cash and cash equivalents | 6,677,647 | - | 6,677,647 |
| Consumer receivables | 216,630,399 | - | 216,630,399 |
| Consumer receivables - long term | 25,999,793 | - | 25,999,793 |
| Other financial assets (non-current) | 1,210,749 | 17,968,897 | 19,179,646 |
| Other financial assets (current) | 7,704,610 | 20,370,546 | 28,075,156 |
| Other receivables from exchange transactions | 75,489,706 | - | 75,489,706 |
| Other receivables from non-exchange transactions | 80 | - | 80 |
| | 333,712,984 | 38,339,443 | 372,052,427 |

9. Retirement benefits

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act, exist for this purpose. All councillors and employees belong to three defined benefit retirement funds. One fund is administered by the Provincial Pension Fund. The last actuarial valuation as at 30 June 2005 is being finalised and will be submitted to the municipality once approved by the executive committee of the fund. No information could be obtained for the other two funds regarding the administrators nor the actuarial valuations.

The municipality is under no obligation to cover any unfunded benefits.

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|---------------------------|-------------------------|-------------------------|
| 10. Inventories | | |
| Consumable stores | 2,066,260 | 2,670,793 |
| Water materials at cost | 37,532 | 37,532 |
| Fuel | 8,077 | 15,163 |
| | <u>2,111,869</u> | <u>2,723,488</u> |
| Inventories (write-downs) | (24,412) | - |
| | <u>2,087,457</u> | <u>2,723,488</u> |

The cost of inventories recognised as an expense during the period is R10,630 (2010 - R344,648).

11. Other receivables from exchange transactions

| | | |
|--|--------------------------|--------------------------|
| Deposits | 1,601,827 | 1,495,636 |
| Other receivables | 7,476,357 | 12,826,111 |
| Unallocated deposits | 17,878,322 | 54,372,252 |
| Insurance paid on behalf of Maluti Water (Pty) Ltd | 8,039,554 | 6,795,707 |
| Money stolen | 822,637 | - |
| | <u>35,818,697</u> | <u>75,489,706</u> |

Money stolen: During August 2010 fraud was detected to the amount of R5,539,228. The Free State High Court in Bloemfontein ordered the amount of R4,728,903 to be paid back to Maluti-A-Phofung Local Municipality.

Credit quality of other receivables

The credit quality of other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

None of the financial assets that are fully performing have been renegotiated in the last year.

Other receivables past due but not impaired

Other receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2011, R 35,768,473 (2010: R 75,489,706) were past due but not impaired.

12. Other receivables from non-exchange transactions

| | | |
|--------------------|------------------|-----------|
| Sundry receivables | <u>3,142,770</u> | <u>80</u> |
|--------------------|------------------|-----------|

Other receivables from non-exchange transactions pledged as security

None of the other receivables from non-exchange transactions were pledged as security.

Credit quality of other receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions are neither past due nor impaired.

Fair value of other receivables from non-exchange transactions

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above.

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| 12. Other receivables from non-exchange transactions (continued) | | |
| The municipality does not hold any collateral as security. | | |
| 13. VAT receivable | | |
| VAT receivable | 14,554,970 | 6,974,750 |
| VAT payable | (10,849,301) | (8,381,136) |
| | 3,705,669 | (1,406,386) |
| VAT is payable on the receipts basis. VAT is paid over to the South African Revenue Services (SARS) only once payment is received from receivables. | | |
| 14. Trade receivables from exchange transactions | | |
| Gross balances | | |
| Rates | 246,477,697 | 291,753,927 |
| Electricity | 58,076,731 | 69,417,217 |
| Water | 100,218,878 | 106,536,238 |
| Sewerage | 46,558,409 | 39,535,282 |
| Refuse | 56,768,236 | 55,348,322 |
| Sundry receivables | 66,727,437 | 32,150,340 |
| | 574,827,388 | 594,741,326 |
| Less: Allowances for bad debt | | |
| Rates | (138,976,329) | (162,681,122) |
| Electricity | (39,177,031) | (38,848,887) |
| Water | (92,580,551) | (78,767,006) |
| Sewerage | (43,364,530) | (28,865,700) |
| Refuse | (54,739,879) | (43,586,755) |
| Sundry receivables | (52,773,757) | (25,361,457) |
| | (421,612,077) | (378,110,927) |
| Net balance | | |
| Rates | 107,501,368 | 129,072,805 |
| Electricity | 18,899,700 | 30,568,330 |
| Water | 7,638,327 | 27,769,232 |
| Sewerage | 3,193,879 | 10,669,582 |
| Refuse | 2,028,357 | 11,761,567 |
| Sundry receivables | 13,953,680 | 6,788,883 |
| | 153,215,311 | 216,630,399 |
| Rates | | |
| Current (0 -30 days) | 14,740,585 | 24,808,625 |
| 31 - 60 days | 10,385,719 | 10,047,839 |
| 61 - 90 days | 7,939,954 | 10,420,986 |

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| 14. Trade receivables from exchange transactions (continued) | | |
| > 91 days | 74,435,110 | 83,795,355 |
| | 107,501,368 | 129,072,805 |
| Electricity | | |
| Current (0 -30 days) | 8,148,495 | 18,803,183 |
| 31 - 60 days | 4,587,691 | 3,708,762 |
| 61 - 90 days | 2,077,859 | 3,015,006 |
| > 91 days | 4,085,655 | 5,041,379 |
| | 18,899,700 | 30,568,330 |
| Water | | |
| Current (0 -30 days) | 4,776,153 | 5,475,541 |
| 31 - 60 days | 3,789,425 | 4,305,469 |
| 61 - 90 days | 4,886,526 | 6,756,201 |
| > 91 days | (5,813,777) | 11,232,021 |
| | 7,638,327 | 27,769,232 |
| Sewerage | | |
| Current (0 -30 days) | 2,324,359 | 3,720,715 |
| 31 - 60 days | 1,745,765 | 1,696,058 |
| 61 - 90 days | 1,656,628 | 1,736,519 |
| > 91 days | (2,532,873) | 3,516,290 |
| | 3,193,879 | 10,669,582 |
| Refuse | | |
| Current (0 -30 days) | 1,756,761 | 1,868,237 |
| 31 - 60 days | 1,575,629 | 1,503,786 |
| 61 - 90 days | 1,469,604 | 1,630,950 |
| > 91 days | (2,773,637) | 6,758,594 |
| | 2,028,357 | 11,761,567 |
| Other | | |
| Current (0 -30 days) | 3,577,762 | 198,072 |
| 31 - 60 days | 1,650,860 | 40,027 |
| 61 - 90 days | 3,204,296 | 164,602 |
| > 91 days | 5,520,762 | 6,386,182 |
| | 13,953,680 | 6,788,883 |
| Reconciliation of allowance for bad debt | | |
| Balance at beginning of the year | (378,110,927) | (398,908,177) |
| Allowance for bad debt | (33,255,159) | - |
| Consumer receivables written off / allowance utilised | (10,245,991) | - |

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| 14. Trade receivables from exchange transactions (continued) | | |
| Reversal of allowance for bad debt | - | 20,797,250 |
| | <u>(421,612,077)</u> | <u>(378,110,927)</u> |

Consumer receivables pledged as security

None of the consumer receivables were pledged as security.

None of the financial assets that are fully performing have been renegotiated in the last year.

Consumer receivables past due but not impaired

VAT on consumer receivables and consumer receivables which are less than 2 months past due are not considered to be impaired. At 30 June 2011, R 33,913,516 (2010: R 48,508,085) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

| | | |
|---------------------|-------------------|-------------------|
| Current (0-30 days) | 3,702,034 | 19,471,570 |
| 31 - 60 days | 2,190,025 | 3,727,686 |
| >60 days | 28,021,457 | 25,308,829 |
| | <u>33,913,516</u> | <u>48,508,085</u> |

Consumer receivables impaired

As of 30 June 2011, on consumer receivables of R 581,236,173 (2010: R 601,150,112) an amount of R28,849,436 was impaired.

The amount of the allowance for bad debt R 421,612,077 as of 30 June 2011 (2010: R 378,110,927).

The ageing of these receivables is as follows:

| | | |
|--------------|--------------------|--------------------|
| 0 - 90 days | 83,308,507 | 75,408,985 |
| Over 90 days | 338,303,570 | 302,701,942 |
| | <u>421,612,077</u> | <u>378,110,927</u> |

The creation and release of provision for impaired receivables have been included in expenses in the statement of financial performance. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The municipality does not hold any collateral as security.

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15. Cash and cash equivalents

Cash and cash equivalents consist of:

| | | |
|---------------------------------|------------------|------------------|
| Cash on hand | 2,816 | 69 |
| Bank balances | 8,847,864 | 6,105,331 |
| Other cash and cash equivalents | 237,959 | 572,247 |
| | 9,088,639 | 6,677,647 |

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates.

The municipality had the following bank accounts

| Account number / description | Bank statement balances | | | Cash book balances | | |
|----------------------------------|-------------------------|-------------------|-------------------|---------------------|-------------------|---------------------|
| | 30 June 2011 | 30 June 2010 | 30 June 2009 | 30 June 2011 | 30 June 2010 | 30 June 2009 |
| First National Bank - Current | 8,410,317 | 11,193,927 | 17,133,457 | (68,794,248) | 12,783,432 | (27,303,812) |
| First National Bank - Savings | 237,959 | 572,247 | 967,606 | 237,959 | 572,247 | 967,606 |
| Total | 8,648,276 | 11,766,174 | 18,101,063 | (68,556,289) | 13,355,679 | (26,336,206) |

16. Long term receivables

| | | |
|--|-------------------|-------------------|
| Consumer receivables (non-current portion) | 11,439,560 | 22,630,995 |
| Consumer receivables (current portion) | 11,191,435 | 3,368,798 |
| | 22,630,995 | 25,999,793 |

The long term receivables consist of consumer accounts with arrangements. These accounts bear no interest and is repayable in monthly installments of R200 if the debt was less than R15,000 and R250 if the debt was over R15,000. The repayment period is dependant on the balance of the account when the arrangement is made.

The credit quality of long term receivables are neither past due nor impaired.

None of the long term receivables were pledged as security.

None of the long term receivables that are fully performing have been renegotiated in the last year.

The maximum exposure to credit risk at the reporting date is the fair value of long term receivable mentioned above. The municipality does not hold any collateral as security.

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|-----------------|------|------|

17. Other financial liabilities

Measured at amortised cost

| | | |
|---------------|------------|------------|
| Annuity loans | 10,824,998 | 10,613,727 |
|---------------|------------|------------|

All annuity loans are from the Development Bank of South Africa and repayments are made on a six monthly basis. The last loan will be redeemed at 31 December 2015. The loans carry interest between 11% and 14% per annum. This loan is secured by a Momentum investment.

| | | |
|--|-----------|------------|
| First National Bank Intabazwe Corridor | 9,904,723 | 15,876,361 |
|--|-----------|------------|

The loan is unsecured, bears interest at 11.45% per annum and repayable in bi-annual installments of R3,538,176.

| | |
|-------------------|-------------------|
| 20,729,721 | 26,490,088 |
|-------------------|-------------------|

Refer to Appendix A for more detail on other financial liabilities.

The municipality did not default on any principal or interest repayments during the period for loans payable. No terms were renegotiated before the financial statements were authorised for issue.

Maluti-a-Phofung Local Municipality intends to procure a R114,000,000 long term loan with Development Bank of South Africa.

Non-current liabilities

| | | |
|-------------------|------------|------------|
| At amortised cost | 12,510,115 | 19,622,076 |
|-------------------|------------|------------|

Current liabilities

| | | |
|-------------------|-----------|-----------|
| At amortised cost | 8,219,606 | 6,868,012 |
|-------------------|-----------|-----------|

| | |
|-------------------|-------------------|
| 20,729,721 | 26,490,088 |
|-------------------|-------------------|

The fair values of the financial liabilities approximates their carrying amounts.

18. Finance lease obligation

Minimum lease payments due

| | | |
|-------------------|---|---------|
| - within one year | - | 581,600 |
|-------------------|---|---------|

| | | |
|--|---|---------|
| | - | 581,600 |
|--|---|---------|

| | | |
|------------------------------|---|----------|
| less: future finance charges | - | (20,005) |
|------------------------------|---|----------|

| | | |
|--|----------|----------------|
| Present value of minimum lease payments | - | 561,595 |
|--|----------|----------------|

Present value of minimum lease payments due

| | | |
|-------------------|---|---------|
| - within one year | - | 561,595 |
|-------------------|---|---------|

| | | |
|---|---|---------|
| Carrying amount of assets under finance lease | - | 332,818 |
|---|---|---------|

All finance leases have been paid off in the 2011 financial year. In terms of finance leases on printers, copiers and fax machines, the lease term has expired and are currently leased on a month to month basis.

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18. Finance lease obligation (continued)

The average lease term was 5 years and the average effective borrowing rate was 10% (2010: 10%).

Interest rates were linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases were secured by the lessor's charge over the leased assets. Refer to Appendix A for more detail on borrowings.

The municipality did not default on any of the principal or interest repayments during the period of the lease agreements. No terms were renegotiated before the financial statements were authorised.

19. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

| | | |
|--|-------------------|-------------------|
| EPWPI Grant | 6,553,850 | - |
| Finance Management Grant | 170 | - |
| RDP House | 3,886,416 | 3,976,632 |
| Sterkfontein (Regional Bulk Infrastructure) | 11,656,685 | - |
| Municipal Infrastructure Grant | 29,831 | - |
| Municipal Systems Improvement Grant | 623 | - |
| Operation Hlasela Projects | 1,450,000 | 1,450,000 |
| Installation and Maintenance of Security Equipment | 10,160,378 | 6,167,244 |
| | 33,737,953 | 11,593,876 |

Movement during the year

| | | |
|--------------------------------------|-------------------|-------------------|
| Balance at the beginning of the year | 11,593,876 | 36,621,829 |
| Received during the year | 218,858,956 | 165,231,938 |
| Income recognition during the year | (196,714,879) | (186,404,658) |
| Transfer back to donor | | (3,855,23) |
| | 33,737,953 | 11,593,876 |

See note 27 for the reconciliation of grants from National/Provincial Government.

20. Trade and other payables from exchange transactions

| | | |
|------------------------------|------------|------------|
| Accrued leave pay | 12,499,083 | 10,832,887 |
| Accrued bonus | 4,701,124 | 3,558,107 |
| Deposits received | 112,191 | 91,818 |
| Payments received in advance | 9,148,480 | 70,423,060 |
| Sundry payables | 97,280,451 | 42,582,673 |
| Stale cheques | 893,969 | - |
| Long service bonus | 4,548,266 | - |
| Trade payables | 38,565,395 | 26,002,597 |
| Unidentified deposits | 20,994,966 | 57,998,689 |

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20. Trade and other payables from exchange transactions (continued)

| | |
|--------------------|--------------------|
| 188,743,925 | 211,489,831 |
|--------------------|--------------------|

Fair value of trade and other payables

The municipality did default on the payment of suppliers within the average of 30 days.

The terms were not renegotiated before the financial statements were authorised for issue.

21. Consumer deposits

| | | |
|-----------------------|------------|-----------|
| Rates and electricity | 10,816,242 | 9,473,950 |
|-----------------------|------------|-----------|

| | | |
|---|--------|--------|
| Guarantees held in lieu of electricity and water deposits | 74,600 | 74,600 |
|---|--------|--------|

No interest accrues on the balance of the consumer deposits held by the municipality.

22. Financial liabilities by category

The accounting policies for financial instruments have been applied to the items below:

2011

| | Financial liabilities at amortised cost | Total |
|---|---|--------------------|
| Other financial liabilities | 20,729,718 | 20,729,718 |
| Trade and other payables from exchange transactions | 188,743,925 | 188,743,925 |
| Trade and other payables from non-exchange transactions | 3,891,681 | 3,891,681 |
| Consumer deposits | 10,816,242 | 10,816,242 |
| | 224,181,566 | 224,181,566 |

2010

| | Financial liabilities at amortised cost | Total |
|---|---|--------------------|
| Other financial liabilities | 26,490,088 | 26,490,088 |
| Finance lease obligation | 561,595 | 561,595 |
| Trade and other payables from exchange transactions | 211,489,831 | 211,489,831 |
| Trade and other payables from non-exchange transactions | 3,855,234 | 3,855,234 |
| Consumer deposits | 9,473,950 | 9,473,950 |
| | 251,870,698 | 251,870,698 |

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|-----------------|------|------|

23. Trade and other payables from non-exchange transactions

| | | |
|-----------------------|------------------|------------------|
| National Revenue Fund | 3,855,234 | 3,855,234 |
| SARS (employee tax) | 36,447 | - |
| | 3,891,681 | 3,855,234 |

24. Property rates

Rates received

| | | |
|---------------------------------------|--------------------|--------------------|
| Industrial / commercial / residential | 27,126,491 | 34,288,461 |
| National and Provincial Government | 104,985,619 | 114,061,269 |
| | 132,112,110 | 148,349,730 |

Valuations

Valuations on which property rates are based are performed every 4 years. The last general valuation came into effect on 1 July 2010. Interim valuations are processed on a bi-annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of R0.3802 (2010: R 0.03802) is applied to the value of residential properties. R0.3802 (2010: R0.7604) is applied to the value of business, industrial and mining properties and R0.0951 (2010: R0.0951) is applied to the value of state owned, agricultural land and public benefit organisation to determine assessment rates. Rebates of 90% (2010: 90%) are granted on agricultural land and undeveloped properties, excluding rural state owned properties. Rebates of 98% (2010: 98%) are granted on residential develop properties and 95% on other developed properties. No rebates are granted for state owned properties. Pensioners, indigents and public benefit organisations receive a 100% rebate.

25. Service charges

| | | |
|---------------------------------|--------------------|--------------------|
| Sale of electricity | 152,260,240 | 149,227,397 |
| Sale of water | 26,388,935 | 62,088,793 |
| Sewerage and sanitation charges | 24,759,134 | 23,752,590 |
| Refuse removal | 18,880,787 | 18,153,860 |
| | 222,289,096 | 253,222,640 |

26. Rendering of services

| | | |
|----------------|----------------|----------------|
| Entrance fees | 123,259 | 151,417 |
| Admission fees | 157,284 | 124,025 |
| Cemetary fees | 285,737 | 303,626 |
| Callout fees | 994 | 1,822 |
| | 567,274 | 580,890 |

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| 27. Government grants and subsidies | | |
| Equitable Share | 267,074,545 | 208,608,527 |
| Municipal Infrastructure Grant | 119,636,169 | 111,849,125 |
| Municipal Systems Improvement Grant (MSIG) | 11,693,377 | 395,000 |
| Integrated National Electrification (DME) Grant | 9,370,000 | 15,515,000 |
| Intabazwe Corridor Grant | - | 15,039,257 |
| RDP Houses Grant | 90,216 | 506,260 |
| Water Services Operating Subsidy (DWAF) Grant | 44,088,421 | 14,748,998 |
| Regional Bulk Infrastructure Grant | - | 21,289,888 |
| Financial Management Grant | 1,199,830 | 732,619 |
| Installation and Maintenance of Security Equipment | 11,839,737 | 3,832,756 |
| E.P.W.P.I Projects | 570,950 | - |
| DBSA ICT Strategy Grant | - | 932,805 |
| | 465,563,245 | 393,450,235 |

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy which is credited to their accounts (6kl of free water and 50kW electricity)

Expanded Public Works Programme Incentive Grant for Municipalities

| | | |
|-----------------------|-----------|---|
| Current-year receipts | 6,553,850 | - |
|-----------------------|-----------|---|

The grant is utilised to supplement municipal capital budgets to eradicate backlogs in municipal infrastructure providing basic services for the benefit of poor households. The grant was used to construct roads, sewerage and water infrastructure as part of the upgrading of informal settlement areas.

Included in the unspent MIG Grant there is retention monies and surety withheld from various projects financed by MIG.

Conditions still to be met - remain liabilities (see note 19)

Financial Management Grant (FMG)

| | | |
|---|-------------|-----------|
| Current-year receipts | 1,200,000 | 750,000 |
| Conditions met - transferred to revenue | (1,199,830) | (732,619) |
| Unspent grant to be paid back to the National Revenue Grant | - | (17,381) |
| | 170 | - |

The purpose of the grant is to promote and support reforms to financial management and the implementation of the Municipal Finance Management Act (MFMA).

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|-----------------|------|------|

27. Government grants and subsidies (continued)

DBSA ICT Strategy Grant

| | | |
|---|----------|-----------|
| Balance unspent at beginning of year | - | 305 |
| Current-year receipts | - | 932,500 |
| Conditions met - transferred to revenue | - | (932,805) |
| | <u>-</u> | <u>-</u> |

The purpose of the grant is to implement the Enterprise Resource Plan in line with the ICT strategy.

RDP Houses Grant

| | | |
|---|------------------|------------------|
| Balance unspent at beginning of year | 3,976,632 | 4,482,892 |
| Current-year receipts | - | (506,260) |
| Conditions met - transferred to revenue | (90,216) | - |
| | <u>3,886,416</u> | <u>3,976,632</u> |

Conditions still to be met - remain liabilities (see note 19)

The purpose of the grant is for the construction of low cost housing in the municipal area.

Sterkfontein (Regional Bulk Infrastructure)

| | | |
|-----------------------|-------------------|----------|
| Current-year receipts | <u>11,656,685</u> | <u>-</u> |
|-----------------------|-------------------|----------|

Conditions still to be met - remain liabilities (see note 19)

The purpose of the grant is for the social component of regional bulk water and sanitation services.

A contractor has been appointed by Bid 03/2010/2011 for installation of the water pipeline.

Water Services Operating Subsidy Grant (DWAF)

| | | |
|--|--------------|--------------|
| Balance unspent at beginning of year | - | 4,970,250 |
| Current-year receipts | 42,958,131 | 11,061,750 |
| Conditions met - transferred to revenue | (42,958,131) | (14,748,998) |
| Unspent grant to be paid back to the National Revenue Fund | - | (1,283,002) |
| | <u>-</u> | <u>-</u> |

Conditions still to be met - remain liabilities (see note 19)

The purpose of the grant is to fund bulk, connector and internal infrastructure of water services at a basic level of service. The grant is transferred to Maluti-a-Phofung Water (Pty) Ltd.

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27. Government grants and subsidies (continued)

Regional Bulk Infrastructure Grant

| | | |
|--|----------|--------------|
| Current-year receipts | - | 22,684,688 |
| Conditions met - transferred to revenue | - | (21,289,888) |
| Unspent grant to be paid back to the National Revenue Fund | - | (1,394,800) |
| | <u>-</u> | <u>-</u> |

Conditions still to be met - remain liabilities (see note 19)

The purpose of the grant is to develop regional bulk infrastructure for water supply to supplement water treatment works at resource development and link such water resource development with the local bulk and local distribution networks on a regional basis cutting across several local municipal boundaries. In the case of sanitation regional bulk collection as well as regional waste water treatment works.

Municipal Infrastructure Grant (MIG)

| | | |
|---|---------------|---------------|
| Balance unspent at beginning of year | - | 6,729,125 |
| Current-year receipts | 119,666,000 | 105,120,000 |
| Conditions met - transferred to revenue | (119,636,169) | (111,849,125) |
| | <u>29,831</u> | <u>-</u> |

Conditions still to be met - remain liabilities (see note 19)

The purpose of the grant is to fund bulk, connector and internal infrastructure of water services at a basic level of service. The grant is transferred to Maluti-a-Phofung Water (Pty) Ltd.

Municipal Systems Improvement Grant (MSIG)

| | | |
|--|------------|-----------|
| Current-year receipts | 750,000 | 735,000 |
| Conditions met - transferred to revenue | (749,377) | (395,000) |
| Unspent grant to be paid back to the National Revenue Fund | - | (340,000) |
| | <u>623</u> | <u>-</u> |

Conditions still to be met - remain liabilities (see note 19)

The purpose of the grant is to assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems as required in the Local Government: Municipal Systems Act 32 of 2000.

Integrated National Electrification Programme (Municipal) Grant

| | | |
|---|--------------|--------------|
| Balance unspent at beginning of year | - | 5,400,000 |
| Current-year receipts | 10,000,000 | 10,115,000 |
| Conditions met - transferred to revenue | (10,000,000) | (15,515,000) |
| | <u>-</u> | <u>-</u> |

Conditions still to be met - remain liabilities (see note 19)

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27. Government grants and subsidies (continued)

The purpose of the grant is for the municipality to address the electrification backlog of permanently occupied residential dwellings, the installation of bulk infrastructure and rehabilitation and refurbishment of electricity infrastructure in order to improve quality of supply.

Operation Hlasela Projects

| | | |
|--------------------------------------|------------------|------------------|
| Balance unspent at beginning of year | 1,450,000 | - |
| Current-year receipts | - | 1,450,000 |
| | 1,450,000 | 1,450,000 |

Conditions still to be met - remain liabilities (see note 19)

The purpose of the grant is for the cleaning of the municipal area.

Installation and Maintenance of Security Equipment

| | | |
|---|-------------------|------------------|
| Balance unspent at beginning of year | 6,167,244 | - |
| Current-year receipts | 14,000,000 | 10,000,000 |
| Conditions met - transferred to revenue | (10,006,866) | (3,832,756) |
| | 10,160,378 | 6,167,244 |

Conditions still to be met - remain liabilities (see note 19)

The purpose of the grant is for the installation and maintenance of security around the Lesotho and Phuthaditjhaba border.

28. Rental income

Rental of:

| | | |
|--------------------------|----------------|----------------|
| Halls | 69,104 | 60,452 |
| Premises | 87,905 | 19,265 |
| Facilities and equipment | 155,498 | 147,061 |
| | 312,507 | 226,778 |

29. Other income

| | | |
|-------------------------------|---------|---------|
| Advertising income | 55,508 | 76,157 |
| Blockages | 26,794 | 14,883 |
| Commissions salary deductions | 156,330 | 131,617 |
| Conservancy services | 232,233 | 165,135 |
| Escorting - vehicles | 13,384 | 8,731 |
| Income from valuations | 39,345 | 36,669 |
| New connections | 192,411 | 284,697 |
| Private work | 1,549 | 1,040 |
| Reconnections - non payment | 180,313 | 201,536 |
| Sale of erven | 516,300 | 574 |
| Sale of tender documents | 214,753 | 143,870 |

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| 29. Other income (continued) | | |
| Searching fees | 19,055 | 21,871 |
| Sundry income | 609,777 | 333,026 |
| Training income | 475,295 | 808,344 |
| | 2,733,047 | 2,228,150 |
| For related party transactions - refer to note 46. | | |
| 30. General expenses | | |
| Advertising | 270,053 | 371,756 |
| Auditors remuneration | 3,781,784 | 2,994,745 |
| Bank charges | 1,256,488 | 1,011,360 |
| Capacity building | 92,986 | 211,860 |
| Chemicals | 11,191 | 7,149 |
| Cleaning | 313,270 | 269,767 |
| Consulting and professional fees | 9,384,426 | 14,375,588 |
| Consumables | 191,132 | 1,438,533 |
| Electricity | 1,465,159 | 1,519,229 |
| Entertainment | 408,612 | 567,871 |
| FMG expenditure | 25,384 | 732,619 |
| Fuel and oil | 4,937,285 | 3,846,767 |
| IDP expenses | 1,862 | 158,220 |
| IT expenses | 595,235 | 2,056,002 |
| Lease rentals on operating lease | 202,234 | 276,987 |
| Local economic development projects | - | 85,117 |
| MSIG expenditure | 749,377 | 395,000 |
| Magazines, books and periodicals | 18,475 | 18,899 |
| Mayoral fund | 541,443 | 940,830 |
| Motor vehicle expenses | 215,414 | 73,490 |
| Other expenses | 3,639,109 | 2,638,720 |
| Postage and courier | 1,932,838 | 2,078,218 |
| Promotions | 731,498 | 790,436 |
| Protective clothing | 31,665 | 878,584 |
| Security (guarding of municipal property) | 2,229,534 | 3,108,693 |
| Subscriptions and membership fees | 2,077,144 | 1,447,730 |
| Telephone and fax | 2,820,724 | 3,126,860 |
| Training | 1,139,306 | 492,031 |
| Valuation costs | 3,464,563 | 5,146,920 |
| Venue expenses | 3,079,254 | 1,330,460 |
| | 45,607,445 | 52,390,441 |

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| 31. Operating surplus | | |
| Operating surplus for the year is stated after accounting inter alia for the following: | | |
| Operating lease charges | | |
| Motor vehicles | | |
| • Contractual amounts | 180,238 | (8,891) |
| Equipment | | |
| • Contractual amounts | 21,996 | 285,878 |
| | 202,234 | 276,987 |
| Depreciation and amortisation on property, plant and equipment | 39,124,904 | 36,340,892 |
| Employee costs | 170,325,181 | 147,770,976 |
| 32. Personnel costs | | |
| Acting allowances | 31,486 | 63,245 |
| Bargaining council contribution | 47,531 | 41,432 |
| Basic | 98,243,875 | 83,003,461 |
| Bonus | 7,763,792 | 7,227,389 |
| Car allowance | 2,897,784 | 2,759,923 |
| Group insurance | 95,851 | 58,474 |
| Housing benefits and allowances | 459,918 | 569,361 |
| Leave pay | 2,510,537 | 684,846 |
| Long service bonus | 4,548,268 | - |
| Medical aid - company contributions | 5,500,611 | 4,873,487 |
| Overtime payments | 5,929,115 | 6,783,585 |
| Post-employment benefits - (pension - defined contribution plan) | 15,727,684 | 13,612,624 |
| Skills development levies | 1,162,734 | 965,580 |
| Standby allowance | 579,269 | 611,414 |
| Telephone / cellphone allowance | 198,700 | 208,100 |
| Tool allowance | 720 | 720 |
| Travel, motor car, accommodation, subsistence and other allowances | 2,018,464 | 2,683,918 |
| UIF | 906,162 | 831,245 |
| | 148,622,501 | 124,978,804 |
| Remuneration of Municipal Manager | | |
| Annual remuneration | 479,174 | 183,639 |
| Allowances | 295,367 | 90,031 |
| Contributions to UIF, medical and pension Funds | 115,430 | 45,044 |
| | 889,971 | 318,714 |

Remuneration as reflected in 2010 is for a period of 5 months due to a new appointment in February 2010.

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| 32. Personnel costs (continued) | | |
| Remuneration of Chief Finance Officer | | |
| Annual remuneration | 464,818 | 438,843 |
| Allowances | 231,951 | 250,811 |
| Contributions to UIF, medical and pension funds | 125,091 | 117,265 |
| | 821,860 | 806,919 |
| Remuneration of Director: Municipal Infrastructure | | |
| Annual remuneration | 451,818 | 411,105 |
| Allowances | 196,300 | 205,667 |
| Contributions to UIF, medical and pension funds | 44,712 | 39,633 |
| | 692,830 | 656,405 |
| Remuneration of Chief Operating officer | | |
| Annual remuneration | 680,703 | 655,538 |
| Allowances | 138,000 | 149,784 |
| Contributions to UIF, medical and pension funds | 9,494 | 9,078 |
| | 828,197 | 814,400 |
| Remuneration of Director: Public Safety | | |
| Annual remuneration | 424,665 | 395,338 |
| Allowances | 145,124 | 172,323 |
| Contributions to UIF, medical and pension funds | 108,338 | 99,192 |
| | 678,127 | 666,853 |
| Remuneration of Director: Corporate Services | | |
| Annual remuneration | 462,252 | 434,868 |
| Allowances | 139,856 | 155,181 |
| Contributions to UIF, medical and pension funds | 7,249 | 6,811 |
| | 609,357 | 596,860 |
| Remuneration of Director: Parks, Sports, Recreation, Arts and Culture | | |
| Annual remuneration | 481,965 | 472,335 |
| Allowances | 146,431 | 171,541 |
| Contributions to UIF, medical and pension funds | 38,885 | 12,102 |
| | 667,281 | 655,978 |

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| 32. Personnel costs (continued) | | |
| Remuneration of Director: Community | | |
| Annual remuneration | 439,963 | 410,960 |
| Allowances | 161,454 | 177,338 |
| Contributions to UIF, medical and pension funds | 79,910 | 74,105 |
| | 681,327 | 662,403 |
| Remuneration of Director: Spatial Development | | |
| Annual remuneration | 405,841 | 378,300 |
| Allowances | 171,412 | 186,435 |
| Contributions to UIF, medical and pension funds | 88,265 | 83,545 |
| | 665,518 | 648,280 |
| 33. Remuneration of councilors | | |
| Councillors | 8,638,228 | 10,242,262 |
| Executive Mayor | 724,675 | 790,136 |
| Mayoral Committee Members | 5,319,915 | 5,414,476 |
| Speaker | 485,398 | 518,486 |
| | 15,168,216 | 16,965,360 |
| In-kind benefits | | |
| The Executive Mayor, Deputy Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the council. | | |
| The Executive Mayor has use of a council owned vehicle for official duties. | | |
| 34. Community project expenditure | | |
| Capital expenditure acquired during the year | 275,983,427 | 218,199,341 |
| Less: Assets capitalised | (242,304,355) | (177,775,466) |
| | 33,679,072 | 40,423,875 |
| 35. Investment revenue | | |
| Interest revenue | | |
| Interest on investment | 7,567,995 | 3,405,899 |

The amount included in investment revenue arising from exchange transactions amounted to R 2,207,574 (2010: R3,405,899).

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| 36. Fair value adjustments | | |
| Property, plant and equipment (Fair value model) | 8,379,655 | - |
| Other financial assets | | |
| • Designated as at fair value through surplus or deficit | 606,682 | (131,624) |
| | 8,986,337 | (131,624) |
| 37. Depreciation | | |
| Property, plant and equipment | 39,124,904 | 36,340,892 |
| 38. Finance costs | | |
| Financial institutions | 3,115,632 | 3,997,662 |
| 39. Auditors' remuneration | | |
| Fees | 3,781,784 | 2,994,745 |
| 40. Operating lease | | |
| <i>Lessor</i> | | |
| The council leases various fixed properties under non-cancellable operating leases to various parties. The lease agreements have escalations of 10% or 12% per year with the agreements varying from 5years to 9years and 11months. Rental income, for these agreements, to the value of R140,403 (2010:R126,288) has been recognised in the income statement during the year. | | |
| <i>Lessee</i> | | |
| The municipality has various operating leases for printers, copiers and fax machines, which are on a month to month basis. | | |
| Future minimum lease payments received (Lessor) | | |
| Receivable within 1 year | 155,498 | 147,061 |
| Operating lease payments (lessee) | | |
| Operating lease payments made | 202,234 | 276,988 |
| 41. Contracted services | | |
| Information technology services | 3,677,475 | 8,879,307 |
| Insurance | 20,988,593 | 15,567,311 |
| Operating leases | 1,412,756 | 1,104,000 |
| Other contractors | 3,830,793 | 2,238,492 |
| Specialist services | 37,050,849 | 43,195,074 |
| | 66,960,466 | 70,984,184 |

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| Figures in Rand | 2011 | 2010 |
|---|--------------------|--------------------|
| 42. Grants and subsidies paid | | |
| Other subsidies | | |
| DWAf subsidy to Maluti-a-Phofung Water (Pty) Ltd | 10,944,000 | 14,748,998 |
| Equitable share to Maluti-a-Phofung Water (Pty) Ltd | 57,555,000 | 47,040,000 |
| | 68,499,000 | 61,788,998 |
| 43. Bulk purchases | | |
| Electricity | 205,332,047 | 146,947,709 |
| Water | 32,183,029 | 19,600,108 |
| | 237,515,076 | 166,547,817 |
| 44. Cash generated from operations | | |
| Surplus | 130,980,534 | 227,371,763 |
| Adjustments for: | | |
| Depreciation and amortisation | 39,124,904 | 36,340,892 |
| Fair value adjustments | (8,986,337) | 131,624 |
| Allowance for debt impairment | 62,104,595 | (20,797,249) |
| Other non-cash items | 256,673 | 13 |
| Changes in working capital: | | |
| Inventories | 636,031 | (350,900) |
| Other receivables from exchange transactions | 39,671,009 | (17,308,155) |
| Other receivables from non-exchange transactions | (3,142,690) | (80) |
| Consumer receivables | 1,310,493 | (95,340,786) |
| Trade and other payables from exchange transactions | (22,745,905) | 88,337,223 |
| VAT | (5,112,042) | 9,079,242 |
| Taxes and transfers payable (non exchange) | 36,447 | 3,855,234 |
| Unspent conditional grants and receipts | 22,144,077 | (25,027,953) |
| Consumer deposits | 1,342,292 | 1,512,982 |
| | 257,620,081 | 207,803,850 |

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45. Contingencies

Management can not reliably estimate the financial effect of the claims due to uncertainties relating to when the cases will be resolved and management are not able to reliably determine the amount payable. The amounts disclosed, where applicable, reflects the claim against the council.

There is no reimbursement from any third parties for potential obligations of the municipality.

All the claims are being contested based on legal advice.

Litigations in the process against the council relating to civil claims include the following:

| | | |
|--|-------------------|-------------------|
| 1. Claim by council for overpayment to supplier and contra claim by supplier for alleged breach of contract: | | |
| 1.1 Claims for alleged breach of contract | 13,000,000 | 15,000,000 |
| 1.2 Claim by council for overpayment to supplier | (304,106) | (304,106) |
| 1.3 Claim by supplier for expropriation of land to council | 4,415,495 | - |
| 2. Claims for services rendered | 9,494,329 | 198,667 |
| 3. Claim by individuals for damages | 1,208,529 | 13,000 |
| 4. Claims on arrear payments | 4,196,443 | 170,000 |
| | 32,010,690 | 15,077,561 |

46. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Related parties include:

- entities that are directly or indirectly controlled by the municipality;
- associates;
- joint ventures and management;
- key management personnel, and close members of the family of key management personnel (note 32 and 33);
- entities in which a substantial ownership interest is held, directly or indirectly, by key management personnel or entities over which such a person is able to exercise significant influence.
- entities that control or exert significant influence over the municipality

The economic entity's key management personnel includes the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

In terms of the MFMA, the municipality may not grant loans to its councillors, management, staff and public with effect from 1 July 2004. Details of loans, together with the conditions thereof, granted prior to this date are disclosed below.

Relationships

Controlled entity

Refer to note 6

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| 46. Related parties (continued) | | |
| Entity controlled by council member's spouse | Mayihlome Tyres | |
| Close family member of key management | Tshedza Guest Lodge | |
| Related party balances | | |
| Amounts included in trade receivable/(trade payable) regarding related parties | | |
| Maluti-a-Phofung Water (Pty) Ltd | (33,592,405) | (20,839,687) |
| Maluti-a-Phofung Water (Pty) Ltd (Insurance) | 8,039,590 | 6,795,707 |
| Amounts included in consumer receivables | | |
| Maluti-a-Phofung Water (Pty) Ltd | 7,414,949 | 5,754,816 |
| Amounts included in grants and subsidies paid | | |
| Maluti-a-Phofung Water (Pty) Ltd | 68,499,000 | 61,788,998 |
| Related party transactions | | |
| Amounts included in bulk purchases | | |
| Maluti-a-Phofung Water (Pty) Ltd | 32,183,029 | 19,600,108 |
| Amounts included in general expenses | | |
| Maluti-a-Phofung Water (Pty) Ltd | (1,091,126) | (1,729,157) |
| Amounts included in repairs and maintenance | | |
| Mayihlome Tyres | 2,719,860 | 953,996 |
| Amounts included in capital expenditure | | |
| Mayihlome Tyres | 4,144 | 1,823 |
| Amounts included in accommodation and lodging paid | | |
| Tshedza Guest Lodge | 44,550 | 4,990 |

47. Prior period errors

Investment made was not recorded in the financial system. The impact is that accumulated surplus's opening balance is understated by R7,759 and investment understated by the same amount.

Receipts were incorrectly recorded during the 2009 financial year. The impact is that accumulated surplus's opening balance is overstated by R5,822,763 and suspense accounts overstated by the same amount.

Expenses were indicated on the bank reconciliation as paid but not yet captured - the accumulated surplus is thus overstated by R217,739, the cash book balance overstated by R224,469 and VAT input understated by R6,729.

Items were appearing in the July bank statement and relating to the 2009-10 financial year were not included in the general ledger - community project expenditure, repairs and maintenance, contracted services, general expenditure, accounts payable and VAT was thus understated. The impact was that accounts payable was understated by R3,101,623, expenditure was understated by R2,547,257 and VAT understated by R554,365.

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47. Prior period errors (continued)

Direct deposits were banked into the municipality's bank account before 1 November 2008 receipted after 1 November 2008 in Sebata (prior financial system) were overstated as well as the accumulated surplus have been overstated. The impact is that Trade creditors were understated by R2,938,221.

Money for rental was collected by the attorneys, but was incorrectly allocated to the suspense account. Accumulated surplus understated and suspense account overstated. The impact was that the suspense accounts was overstated by R781,173 and rental income understated by the same amount.

Inward unpaid charges were incorrectly allocated to receipt receivable vote. Accumulated surplus was thus overstated and general expenditure and accounts receivable understated. The impact was that the RD/Receipt vote was overstated by R1,155 and general expenditure understated by the same amount.

Direct deposits captured against ledger votes which were duplicated or over receipted. Income was thus overstated and accounts receivable understated by the amount of R7,687.

VAT should have been included in the invoice for grants issued to the municipality, the effect is that grants paid and accounts payable are understated. The impact was that trade creditors were overstated by R246,363 and input VAT understated by the same amount.

Transactions captured in general ledger, but never paid and were part of the salary interface. The impact is that accumulated surplus is understated and sundry payables overstated by the amount of R583,143.

Operating leases were not straightlined during the previous periods and the impact is that deferred operating lease was understated by R9,208 and lease expenditure overstated by the same amount.

Assets purchased during the previous financial year was expenses and not capitalised. The impact is that Property, plant and equipment was understated by R6,407,208 and accumulated surplus's opening balance understated by the same amount.

VAT not claimed on Property, plant and equipment purchases that were expensed during the previous financial years. The impact is that general expenditure was overstated by R1,448,396 and Property, plant and equipment was understated by R1,239,774 and VAT input understated by R208,622.

Expenses were paid during the 2010 financial year but never recorded on the financial system. The impact is that general expenditure was understated by R3,237,738 and the main bank account overstated by the same amount.

Input VAT on expenditure was not claimed during the previous financial year. The impact is that input VAT was understated by R74,900 and expenditure over stated by the same amount.

Input VAT was not claimed on contract fees amounting to R127,003. The impact is that contract fees is overstated by this amount and VAT input understated by the same amount.

The refunds for subsistence and travel was incorrectly allocated to the wrong account. The impact is that trade and other payables is overstated by R29,955 and subsistence and travel is overstated by the same amount.

Refund of rates and taxes were incorrectly allocated to the wrong account. The impact is accumulated surplus's opening balance is overstated by R2,969,317 and sundry deposits is overstated by the same amount.

Rates income was overstated due to an incorrect valuation of property. The impact is that rates income and accounts

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47. Prior period errors (continued)

receivable were overstated by the amount of R3,075,301.

Insurance paid on behalf of Maluti Water (Pty) LTD was not recognised during the previous years. Trade creditors was understated by R1,674,410 and insurance paid overstated by the same amount.

Money was short banked by the company - TATS and the municipality did not make a provision in 2009/2010 financial year. The impact is that the electricity sales income is understated by R2,107,469, VAT payable understated by R295,045 and account receivable were understated by R2,402,515.

A grant receivable was incorrectly recognised during the 2010 financial year for grants already received. The impact is the grants received was understated by R1,130,289 and receivables overstated R1,130,289.

Petty cash was not recognised during the 2010 financial year and the impact is that Petty Cash was understated by R68.

Invoices received before year end during the 2010 financial year were only captured after year end. Sundry creditors were understated by R87,859 and general expenditure understated by the same amount.

VAT refunds were incorrectly classified as sundry deposits during the 2010 financial year. The impact is that Sundry deposits were overstated by R16,878,488 and VAT payable to SARS overstated by the same amount.

Service charges for indigent subsidies were incorrectly recognised during the 2010 financial year amounting to R8,283,369. Electricity services were overstated by R8,283,369 and Indigent subsidy overstated by the same amount.

The fair value calculation of trade receivables was incorrectly calculated during the 2010 financial year. The impact is that trade receivables were overstated by R6,408,785 and fair value adjustment understated by the same amount.

The correction of the errors resulted in adjustments as follows:

Statement of financial position

| | |
|---|---------------------|
| Increase in inventory | 320,508 |
| Decrease in trade and other receivables (exchange transactions) | (19,800,077) |
| Decrease in VAT receivable | (9,791,441) |
| Decrease in consumer receivables | (2,655,435) |
| Decrease in cash and cash equivalents | (6,678,031) |
| Increase in property, plant and equipment | 833,752 |
| Decrease in trade and other payables from exchange transactions | 4,640,416 |
| Decrease in accumulated surplus | 22,545,201 |
| Other financial assets | 7,760 |
| Decrease in other receivables from non-exchange transactions | (1,130,210) |
| | (11,707,557) |

Statement of financial performance

| | |
|--|-----------|
| Decrease in property rates | 3,075,301 |
| Decrease in service charges | 6,175,900 |
| Increase in rental of facilities and equipment | (2,709) |
| Decrease in interest received - consumers | 35,126 |
| Increase in other income | (29,556) |
| Increase in community project expenditure | 323,894 |
| Increase in repairs and maintenance | 443,989 |

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| 47. Prior period errors (continued) | | |
| Increase in contracted services | 1,872,841 | |
| Decrease in general expenditure | (7,005,386) | |
| Increase in personnel | 3,350 | |
| Increase in depreciation | 406,022 | |
| Increase in fair value adjustments | 6,408,785 | - |
| | 11,707,557 | |

48. Comparative figures

Certain comparative figures have been reclassified.

Investments were incorrectly classified as non-current investments and should have been classified as current investments. This was corrected based on maturity date.

The short term portion of long term receivables was incorrectly included in the non current balance of long term receivables.

The effects of the reclassification are as follows:

Statement of financial position

| | | |
|--|--------------|--------------|
| Non-current investments | (20,387,911) | (20,370,546) |
| Current investments | 20,387,911 | 20,370,546 |
| Non-current portion of long term receivables | - | (3,368,798) |
| Current portion of long term receivables | - | 3,368,798 |

49. Risk management

Financial risk management

The municipality has exposure to the following risks from its use of financial instruments:

- Liquidity risk
- Market risk
- Credit risk

This note presents information about the municipality's exposure to each of the above risks and the municipality's objectives, policies and processes for measuring and managing risks. Further quantitative disclosures are included throughout the annual financial statements.

Credit risk

Credit risk is managed on a group basis.

Credit risk consists mainly of cash deposits, cash equivalents and trade receivables. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customer type on an ongoing basis. Risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards.

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|-----------------|------|------|

49. Risk management (continued)

Trade and other receivables (current and non-current portion)

The municipality's trade receivables exposure to credit risk is influenced mainly by the individual risk characteristics of each consumer. Consumer receivables comprise of services supplied by the municipality such as water, sanitation and rates levied. Consumer receivables constitute approximately 47% of the municipality's total exposure to maximum credit risk. The municipality's exposure and credit ratings of its customers are continuously monitored. The municipality establishes an allowance for bad debt that represents its estimate of incurred losses in respect of trade and other receivables. No trade or other receivables have been pledged as security. Certain trade and other receivables that were past due have been defaulted on by counterparties, thus legal action has been instituted against these parties in an attempt to recover this debt, where debt is irrecoverable it has been written off. No conditions or terms of the trade and other receivables have been re-negotiated with counterparties.

Trade and other payables

Payables to the municipality's subsidiary Maluti-a-Phofung Water Pty Ltd accounts for 12% of the maximum credit risk exposure for the municipality. The account payable originated in accordance with the sale of business agreement for the purchase of the water service by Maluti-a-Phofung Water. No trade and other payables have been pledged as security. When loans become irrecoverable they are written off. No conditions or terms of the loans have been re-negotiated with counterparties.

Cash and cash equivalents

The municipality limits its credit risk by only banking with registered financial institutions in terms of the Banks Act, 1990 (Act No. 94 of 1990) operating in South Africa. No cash and cash equivalents have been pledged as security. No terms or conditions were required to be re-negotiated with the bank and no cash was defaulted on by the bank holding the municipality's cash. There were no restriction with regards to the use of cash, barring the municipality's compliance with the Municipal Finance Management Act requirement regarding cash management.

Maximum exposure to credit risk at reporting date was:

| | | |
|--------------------------------|------------------|------------------|
| Available for sale investments | 300 | 300 |
| Cash and cash equivalents | 9,088,639 | 6,677,647 |
| | 9,088,939 | 6,677,947 |

Maximum exposure to credit risk at reporting date for loans and receivables as per counter parties was:

| | | |
|--|--------------------|--------------------|
| Consumer receivables (current) | 574,827,388 | 594,741,326 |
| Consumer receivables (non-current) | 22,630,995 | 25,999,793 |
| Other receivables from exchange transactions | 35,818,697 | 75,489,706 |
| Other receivables from non-exchange transactions | 3,142,770 | 80 |
| Other financial assets (current) | 39,102,031 | 28,075,156 |
| Other financial assets (non-current) | 2,052,710 | 19,179,646 |
| | 677,574,591 | 743,485,707 |

Impairment losses

The municipality's consumer receivables (current) have been reviewed for indicators of impairment. Certain receivables were found to be impaired and an allowance has been recorded accordingly. The impaired trade receivables are due from consumers defaulting on service costs levied by the Municipality.

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49. Risk management (continued)

Unimpaired consumer receivables

| | | |
|-----------------------|-------------------|-------------------|
| Current (0 - 30 days) | 9,415,340 | 19,987,609 |
| 31 - 60 days | 6,326,384 | 7,759,084 |
| 61 - 90 days | 5,659,972 | 8,641,398 |
| 90 days + | 19,436,531 | 42,518,027 |
| | 40,838,227 | 78,906,118 |

Impaired consumer receivables

| | | |
|-----------------------|--------------------|--------------------|
| Current (0 - 30 days) | 25,908,775 | 34,886,764 |
| 31 - 60 days | 17,408,705 | 13,542,857 |
| 61 - 90 days | 15,574,895 | 15,082,866 |
| 90 days + | 53,484,709 | 74,211,794 |
| | 112,377,084 | 137,724,281 |

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

Liquidity risk is the risk that the municipality will not be able to meet its financial obligations as they fall due. The municipality's approach to managing liquidity is to ensure as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unauthorised expenditure. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities. The municipality has not defaulted on external loans, payables and lease commitment payments being either interest or capital and no re-negotiation of terms were made on any of these instruments.

The following are contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

| At 30 June 2011 | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
|--------------------------|------------------|-----------------------|-----------------------|--------------|
| Borrowings | 9,148,480 | - | - | - |
| Trade and other payables | 174,466,269 | - | - | - |
| At 30 June 2010 | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
| Borrowings | 70,423,060 | - | - | - |
| Trade and other payables | 197,098,837 | - | - | - |

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the municipality's revenue or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

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49. Risk management (continued)

There has been no change, since the previous financial year, to the municipality's exposure to market risks or the manner in which it manages and measures the risk.

Interest rate risk

The municipality limits its interest rate risk on financial liabilities by ensuring that reasonable fixed interest rates are negotiated on long term loans.

At reporting date the interest rate profile of the municipality's interest bearing financial instruments was:

Fixed rate instruments

| | | |
|-----------------------|-----------|------------|
| Financial liabilities | 9,148,480 | 70,423,060 |
|-----------------------|-----------|------------|

Variable rate instruments

| | | |
|-----------------------|--------------------|--------------------|
| Financial assets | 225,547,579 | 333,712,984 |
| Financial liabilities | 19,148,039 | 16,995,375 |
| | 244,695,618 | 350,708,359 |

Fair value sensitivity analysis on fixed rate instruments

The municipality does not account for any fixed rate financial assets and liabilities at fair value through surplus and deficit, therefore a change in interest rates at reporting date would not affect surplus and deficit.

Cash flow sensitivity analysis for variable rate instruments

The analysis below assumes that all other variables except interest rates will remain constant. A 100 basis points (2010: 300 basis points) increase or decrease was used to report possible changes in surplus for the year due to interest rate risk. The sensitivity rates are based on management's assessments of reasonable possible changes in interest rates.

30 June 2011

| | 100 bp increase | 100 bp decrease |
|---------------------------|--------------------|--------------------|
| | Surplus or deficit | |
| Variable rate instruments | (2,977,020) | 2,977,020 |

30 June 2010

| | 300 bp decrease | 300 bp increase |
|---------------------------|--------------------|--------------------|
| | Surplus or deficit | |
| Variable rate instruments | (5,260,625) | 5,260,625 |

50. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

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| 51. Fruitless and wasteful expenditure | | |
| Reconciliation of fruitless and wasteful expenditure | | |
| Fruitless and wasteful expenditure - current year | 326,948 | - |
| The fruitless expenditure relates to interest on Eskom overdue accounts. | | |
| 52. Irregular expenditure | | |
| Opening balance | 4,314,791 | - |
| Irregular Expenditure - current year | - | 4,314,791 |
| | 4,314,791 | 4,314,791 |
| Details of irregular expenditure – current year | | |
| | Disciplinary steps taken/criminal proceedings | |
| Over-payment of councillors as a result of overpayments of upper limits to councillors as determined by Remuneration of Public Office Bearers Act no 20 of 1998 | To be recovered from the individual councillors | 4,314,791 |
| | | |
| 53. Presentation of budget information | | |
| 53.1 Reconciliation between budget and statement of financial performance | | |
| Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance: | | |
| Net surplus per the statement of financial performance | 130,980,534 | 227,371,763 |
| Adjusted for: | | |
| Fair value adjustments | (8,122,832) | 131,624 |
| Impairments recognised / reversed | (56,137,236) | (20,797,249) |
| (Over) or underspending - operating expenses | 26,267,668 | - |
| (Over) or under spending - capital expenditure | (142,082,277) | (172,450,824) |
| Net (deficit) surplus per approved budget | (49,094,143) | 34,255,314 |
| 54. Additional disclosure in terms of Municipal Finance Management Act | | |
| Contributions to organised local government | | |
| Current year subscription / fee | 1,267,826 | 958,345 |
| Amount paid - current year | (1,267,826) | (958,345) |
| | - | - |

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| 54. Additional disclosure in terms of Municipal Finance Management Act (continued) | | |
| Audit fees | | |
| Current year subscription / fee | 4,312,617 | 3,449,021 |
| Amount paid - current year | (4,312,617) | (3,449,021) |
| | <u>-</u> | <u>-</u> |
| PAYE and UIF | | |
| Opening balance | 1,157,254 | 1,002,996 |
| Current year subscription / fee | 20,317,720 | 18,739,290 |
| Amount paid - current year | (18,709,009) | (17,582,036) |
| Amount paid - previous years | (1,157,254) | (1,002,996) |
| | <u>1,608,711</u> | <u>1,157,254</u> |
| Pension and medical aid deductions | | |
| Opening balance | 2,624,063 | 2,317,768 |
| Current year subscription / fee | 33,798,569 | 31,091,838 |
| Amount paid - current year | (30,820,297) | (28,467,775) |
| Amount paid - previous years | (2,624,063) | (2,317,768) |
| | <u>2,978,272</u> | <u>2,624,063</u> |
| VAT | | |
| VAT receivable | 14,554,970 | 6,974,763 |
| VAT payable | (10,849,301) | (8,381,136) |
| | <u>3,705,669</u> | <u>(1,406,373)</u> |

VAT payables and VAT receivables are shown in note 13.

All VAT returns have been submitted by the due date throughout the year.

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54. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following councillors had arrear accounts outstanding for more than 90 days at 30 June 2011:

| 30 June 2011 | Outstanding less than 90 days R | Outstanding more than 90 days R | Total R |
|----------------------|--|--|---------------|
| A Komako | 1,946 | 28,447 | 30,393 |
| MC Mositi | 1,497 | 1,104 | 2,601 |
| MT Mavuso (730870) | 326 | 175 | 501 |
| MT Mavuso (749817) | - | 1,277 | 1,277 |
| N Mopeli | 456 | 10,249 | 10,705 |
| SN Mojakisane | 2 | 141 | 143 |
| TJ Mosikidi | 638 | 2,829 | 3,467 |
| TR Mohlekwa | 1,025 | - | 1,025 |
| TS Mpakathe (734655) | 966 | 18,102 | 19,068 |
| TS Mpakathe (749243) | - | 255 | 255 |
| VM Ntamane (735464) | 775 | 8,468 | 9,243 |
| VM Ntamane (749096) | - | 10,675 | 10,675 |
| QW Lefora | 321 | - | 321 |
| | 7,952 | 81,722 | 89,674 |
| 30 June 2010 | Outstanding less than 90 days R | Outstanding more than 90 days R | Total R |
| Gamede EN | 271 | 90 | 361 |
| Lefora QW | 459 | 84 | 543 |
| Mahlaba MA | 361 | 22,142 | 22,503 |
| Mohlekwa TR | 1,184 | 652 | 1,836 |
| Mositi MC | 666 | 69 | 735 |
| Norman MV | 1,214 | 9,749 | 10,963 |
| | 4,155 | 32,786 | 36,941 |

55. Utilisation of long-term liabilities reconciliation

| | | |
|------------------------------|------------|------------|
| Long-term liabilities raised | 20,729,721 | 26,490,088 |
|------------------------------|------------|------------|

Long-term liabilities have been utilised in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

56. Actual operating expenditure versus budgeted operating expenditure

Refer to Appendix E for the comparison of actual operating expenditure versus budgeted expenditure.

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

| Figures in Rand | 2011 | 2010 |
|-----------------|------|------|
|-----------------|------|------|

57. Actual capital expenditure versus budgeted capital expenditure

Refer to Appendix B for the comparison of actual capital expenditure versus budgeted expenditure.

58. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

The reasons for the following deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

| Summary of deviations | Quantity | Amount |
|-----------------------|-----------|-------------------|
| Emergency | 33 | 10,395,518 |
| Sole supplier | 14 | 843,061 |
| | 47 | 11,238,579 |

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

| Figures in Rand | 2011 | 2010 |
|---|--------------------|---------------------|
| 59. Revenue | | |
| Rendering of services | 567,274 | 580,890 |
| Property rates | 132,112,110 | 148,349,730 |
| Service charges | 222,289,096 | 253,222,640 |
| Rental of facilities & equipment | 312,507 | 226,778 |
| Fines | 464,529 | 282,471 |
| Government grants & subsidies | 465,563,245 | 393,450,235 |
| | 821,308,761 | 796,112,744 |
| The amount included in revenue arising from rendering of services are as follows: | | |
| Rendering of services | 567,274 | 580,890 |
| Service charges | 222,289,096 | 253,222,640 |
| Rental of facilities & equipment | 312,507 | 226,778 |
| | 223,168,877 | 254,030,308 |
| The amount included in revenue arising from non-exchange transactions is as follows: | | |
| Property rates | 132,112,110 | 148,349,730 |
| Fines | 464,529 | 282,471 |
| Government grants & subsidies | 465,563,245 | 393,450,235 |
| | 598,139,884 | 542,082,436 |
| Rendering of services | | |
| Admission fees | 157,284 | 124,025 |
| Callout fees | 994 | 1,822 |
| Cemetery fees | 285,737 | 303,626 |
| Entrance fees | 123,259 | 151,417 |
| | 567,274 | 580,890 |
| 60. Reversal of allowance for bad debt | | |
| (Reversal) / allowance bad-debts | 33,255,159 | (20,797,249) |
| Debts impaired | 28,849,436 | - |
| | 62,104,595 | (20,797,249) |
| 61. Repairs and maintenance | | |
| Land and buildings | 552,197 | 554,579 |
| Vehicles | 2,075,809 | 3,489,605 |
| General | 1,926,232 | 1,791,753 |
| Street lights, names, signs and stormwaters | 6,500,152 | 3,287,520 |
| Motors and pumps | 115,992 | 53,411 |
| Office equipment, machinery and computers | 148,906 | 1,817,442 |
| Roads | (6,746,216) | 6,119,601 |

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

| Figures in Rand | 2011 | 2010 |
|--|-------------------|-------------------|
| 61. Repairs and maintenance (continued) | | |
| Network reticulation | 2,370,580 | 2,268,339 |
| Substations | 101,818 | 65,421 |
| Traffic lights | - | 87,144 |
| | 7,045,470 | 19,534,815 |
| 62. Interest received - consumers | | |
| Consumer receivables | 18,444,498 | 11,147,791 |
| Fair value adjustment on consumer receivables | 5,916,737 | (6,408,786) |
| | 24,361,235 | 4,739,005 |

Interest received from consumer receivables are interest charged on overdue accounts.

MALUTI-A-PHOFUNG WATER (PTY) LTD

APPENDIX A

SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2010

| | Loan number | Redeemable | Balance at 01 July 2009 | Received during the year | Redeemed during the year | Balance at 30 June 2010 | Current liabilities | Non current liabilities |
|------------------------|-------------|------------|-------------------------|--------------------------|--------------------------|-------------------------|---------------------|-------------------------|
| | | | R | R | R | R | R | R |
| Operating lease | | | | | | | | |
| Technikon (Pty) Ltd | 3022872 | 2013/06/30 | 641 088 | - | 160 272 | 480 816 | 160 272 | 320 544 |
| | | | | - | | - | | - |
| | | | 641 088 | - | 160 272 | 480 816 | 160 272 | 320 544 |

| | Loan number | Redeemable | Balance at 01 December 2009 | Received during the year | Redeemed during the year | Balance at 30 June 2010 | Current liabilities | Non current liabilities |
|----------------------------------|-----------------|------------|-----------------------------|--------------------------|--------------------------|-------------------------|---------------------|-------------------------|
| | | | R | R | R | R | R | R |
| Finance lease obligations | | | | | | | | |
| The Rental Company | Not on contract | 30/11/2012 | 472 648 | - | (19 734) | 492 382 | (54 885) | 547 267 |
| | | | | | | | | - |
| | | | 472 648 | - | (19 734) | 492 382 | (54 885) | 547 267 |

SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2011

| | Loan number | Redeemable | Balance at 01 July 2010 | Received during the year | Redeemed during the year | Balance at 30 June 2011 | Current liabilities | Non current liabilities |
|------------------------|-------------|------------|-------------------------|--------------------------|--------------------------|-------------------------|---------------------|-------------------------|
| | | | R | R | R | R | R | R |
| Operating lease | | | | | | | | |
| Technikon (Pty) Ltd | 3022872 | 2013/06/30 | 480 816 | - | 160 272 | 320 544 | 160 272 | 160 272 |
| | | | | - | | - | | - |
| | | | 480 816 | - | 160 272 | 320 544 | 160 272 | 160 272 |

| | Loan number | Redeemable | Balance at 01 July 2010 | Received during the year | Redeemed during the year | Balance at 30 June 2011 | Current liabilities | Non current liabilities |
|----------------------------------|-----------------|------------|-------------------------|--------------------------|--------------------------|-------------------------|---------------------|-------------------------|
| | | | R | R | R | R | R | R |
| Finance lease obligations | | | | | | | | |
| The Rental Company | Not on contract | 30/11/2012 | 492 382 | - | (54 885) | 547 267 | 144 153 | 403 114 |
| | | | | | | | | - |
| | | | 492 382 | - | (54 885) | 547 267 | 144 153 | 403 114 |

MALUTI-A-PHOFUNG WATER (PTY) LTD

APPENDIX B

ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2010

| Statutory Name | Cost price | | | | | Accumulated depreciation | | | | Carrying amount |
|----------------------------|------------------|----------------|-----------|-----------|-------------------|--------------------------|----------------|----------|------------------|------------------|
| | Opening Balance | Additions | Additions | Disposals | Closing Balance | Opening Balance | Depreciation | Disposal | Closing Balance | |
| | R | R | R | R | R | R | R | R | R | R |
| Land & Building | | | | | | | | | | |
| Building | 194 059 | 92 775 | - | - | 286 834 | - | - | - | - | 286 834 |
| Sub Total | 194 059 | 92 775 | - | - | 286 834 | - | - | - | - | 286 834 |
| | | | | | | | | | | |
| Other Assets | | | | | | | | | | |
| Fire Equipment - additions | 5 716 | - | - | - | 5 716 | 5 716 | - | - | 5 716 | - |
| Computer Equipment | 1 025 993 | 531 423 | - | - | 1 557 416 | 902 941 | 146 718 | - | 1 049 659 | 507 756 |
| Furniture & Fittings | 162 512 | 59 696 | - | - | 222 208 | 79 778 | 12 334 | - | 92 112 | 130 096 |
| Motor Vehicles | 4 712 525 | - | - | - | 4 712 525 | 3 546 713 | 175 683 | - | 3 722 396 | 990 129 |
| Office Equipment | 405 122 | 49 720 | - | - | 454 842 | 1 737 | 5 304 | - | 7 041 | 447 801 |
| Plant & Equipment | 3 081 739 | - | - | - | 3 081 739 | 2 670 134 | 12 991 | - | 2 683 125 | 398 614 |
| Sub Total | 9 393 606 | 640 839 | - | - | 10 034 445 | 7 207 019 | 353 030 | - | 7 560 050 | 2 474 396 |
| | | | | | | | | | | |
| Grand Total | 9 587 665 | 733 614 | - | - | 10 321 279 | 7 207 019 | 353 030 | - | 7 560 050 | 2 761 230 |

ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2011

| Statutory Name | Cost price | | | | | Accumulated depreciation | | | | Carrying amount |
|----------------------------|-------------------|----------------|-----------|-----------|-------------------|--------------------------|------------------|----------|------------------|------------------|
| | Opening Balance | Additions | Additions | Disposals | Closing Balance | Opening Balance | Depreciation | Disposal | Closing Balance | |
| | R | R | R | R | R | R | R | R | R | R |
| Land & Building | | | | | | | | | | |
| Building | 286 834 | 12 280 | - | - | 299 114 | - | - | - | - | 299 114 |
| Sub Total | 286 834 | 12 280 | - | - | 299 114 | - | - | - | - | 299 114 |
| | | | | | | | | | | |
| Other Assets | | | | | | | | | | |
| Fire Equipment | 5 716 | - | - | - | 5 716 | 5 716 | - | - | 5 716 | - |
| Computer Equipment | 1 557 416 | 110 932 | - | - | 1 668 348 | 1 049 659 | 272 267 | - | 1 321 927 | 346 421 |
| Furniture & Fittings | 222 208 | 75 960 | - | - | 298 168 | 92 112 | 65 568 | - | 157 680 | 140 488 |
| Motor Vehicles | 4 712 525 | - | - | - | 4 712 525 | 3 722 396 | 636 554 | - | 4 358 951 | 353 574 |
| Office Equipment | 454 842 | 67 143 | - | - | 521 984 | 7 041 | 15 401 | - | 22 442 | 499 542 |
| Plant & Equipment | 3 081 739 | 708 654 | - | - | 3 790 393 | 2 683 125 | 345 126 | - | 3 028 251 | 762 142 |
| Sub Total | 10 034 445 | 962 689 | - | - | 10 997 134 | 7 560 050 | 1 334 917 | - | 8 894 967 | 2 102 167 |
| | | | | | | | | | | |
| Grand Total | 10 321 279 | 974 969 | - | - | 11 296 248 | 7 560 050 | 1 334 917 | - | 8 894 967 | 2 401 281 |

MALUTI-A-PHOFUNG WATER (PTY) LTD

APPENDIX C

DISCLOSURE OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003 FOR THE YEAR ENDED 30 JUNE 2010

| Name of Grants | Name for Organ of State or Municipal entity | Unspent Balance | Quarterly Receipts | | | | Quarterly Expenditure | | | | Grants and subsidies delayed/ withheld | Reasons for delay / withholding of funds | Compliance with conditions | Reasons for non-compliance |
|-----------------|---|-----------------|--------------------|---------------|---------------|---------------|-----------------------|---------------|---------------|---------------|--|--|----------------------------|----------------------------|
| | | 01 July 2009 | September | December | March | June | September | December | March | June | | | | |
| | | R | R | R | R | R | R | R | R | R | | | | |
| EQUITABLE SHARE | National Treasury | - | 11 763 920 | 11 760 000 | 11 760 000 | 11 760 000 | 11 763 920 | 11 760 000 | 11 760 000 | 11 760 000 | - | N/A | Y | N/A |
| RBIG (DWAF) | Dept of Water Affairs & Forestry | - | 3 687 249 | 3 687 249 | 3 687 249 | 3 687 249 | 3 687 249 | 3 687 249 | 3 687 249 | 3 687 249 | - | N/A | Y | N/A |
| | | - | 15 451 169.50 | 15 447 249.50 | 15 447 249.50 | 15 447 249.50 | 15 451 169.50 | 15 447 249.50 | 15 447 249.50 | 15 447 249.50 | 15 447 249.50 | - | | |

DISCLOSURE OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003 FOR THE YEAR ENDED 30 JUNE 2011

| Name of Grants | Name for Organ of State or Municipal entity | Unspent Balance | Quarterly Receipts | | | | Quarterly Expenditure | | | | Grants and subsidies delayed/ withheld | Reasons for delay / withholding of funds | Compliance with conditions | Reasons for non-compliance |
|-----------------|---|-----------------|--------------------|---------------|---------------|---------------|-----------------------|---------------|---------------|---------------|--|--|----------------------------|----------------------------|
| | | 01 July 2010 | September | December | March | June | September | December | March | June | | | | |
| | | | R | R | R | R | R | R | R | R | | | | |
| EQUITABLE SHARE | National Treasury | - | 14 388 750 | 14 388 750 | 14 388 750 | 14 388 750 | 14 388 750 | 14 388 750 | 14 388 750 | 14 388 750 | - | N/A | Y | N/A |
| RBIG (DWAF) | Dept of Water Affairs & Forestry | - | 2 736 000 | 2 736 000 | 2 736 000 | 2 736 000 | 2 736 000 | 2 736 000 | 2 736 000 | 2 736 000 | - | N/A | Y | N/A |
| | | - | 17 124 750.00 | 17 124 750.00 | 17 124 750.00 | 17 124 750.00 | 17 124 750.00 | 17 124 750.00 | 17 124 750.00 | 17 124 750.00 | - | | | |

| Unspent Balance 30 June 2010 |
|------------------------------------|
| R |
| - |
| - |
| - |

| Unspent Balance 30 June 2011 |
|------------------------------------|
| R |
| - |
| - |
| - |

MALUTI-A-PHOFUNG WATER (PTY) LTD

APPENDIX D

ACTUAL VS BUDGET FOR THE YEAR ENDED 30 JUNE 2011

| c | Actual | Budget | Variance | Variance | Reasons for variances |
|--|--------------------|-------------------|------------------|-----------------|---|
| | R | R | R | % | |
| REVENUE | | | | | |
| Service charges | 28 429 484 | 29 109 000 | (679 516) | -2.33% | Exceeded revised budget due to implementation of credit control measures. |
| Government grants & subsidies | 68 499 000 | 68 499 000 | - | 0.00% | |
| Other income | 166 107 | - | 166 107 | 100.00% | |
| | 97 094 591 | 97 608 000 | (513 409) | | |
| EXPENSES | | | | | |
| Personnel | 50 466 996 | 53 915 000 | (3 448 004) | -6.40% | |
| Remuneration of councillors | 114 716 | 160 000 | (45 284) | -28.30% | More board of Directors meetings were held as planned |
| Depreciation | 1 334 917 | - | 1 334 917 | 100.00% | |
| Finance costs | 1 950 165 | - | 1 950 165 | 100.00% | |
| Repairs and maintenance | 15 874 795 | 15 626 000 | 248 795 | 1.59% | |
| Bulk purchases | 17 684 386 | 11 750 000 | 5 934 386 | 50.51% | Due to provision for water abstraction at year end for about R 10 million |
| Contracted services | 5 184 683 | 4 768 000 | 416 683 | 8.74% | |
| General expenses | 11 500 502 | 11 389 000 | 111 502 | 0.98% | |
| | 104 272 343 | 97 608 000 | 6 503 160 | | |
| OTHER | | | | | |
| Fair value adjustments | 498 320 | - | 498 320 | 100.00% | Not budgeted for |
| | 498 320 | - | 498 320 | | |
| Net surplus/ (deficit) for the year | (7 177 752) | - | 6 488 071 | | |

Maluti-a-Phofung Water (Pty) Ltd
(Registration number 2005/033425/07)
Annual Financial Statements
for the year ended 30 June 2011

Maluti-a-Phofung Water (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

General Information

| | |
|--|--|
| Country of incorporation and domicile | South Africa |
| Nature of business and principal activities | Municipal entity providing basic water, sanitation and revenue collection services. |
| Legal form | Company and municipal entity as contemplated in the Municipal Systems Act 32 of 2000 |
| Company registration number | 2005/033425/07 |
| Non-executive directors | Mokhesi N Netshivhodza MG Zwane CNT |
| Secretary | Enslins Harrismith |
| Accounting officer | Letsela LM |
| Chief Finance Officer (CFO) | Mofokeng M |
| Registered office | Old Government Building 2nd Industrial Area Phuthaditjhaba |
| Business address | Maluti-A-Phofung Water (Pty) Ltd Phuthaditjhaba 9870 |
| Postal address | PO Box 666 Harrismith 9880 |
| Bankers | First National Bank |
| Auditors | Auditor General Free State |

Maluti-a-Phofung Water (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

Index

The reports and statements set out below comprise the annual financial statements presented to the board of directors:

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Abbreviations

| | |
|---------|--|
| DBSA | Development Bank of South Africa |
| SA GAAP | South African Statements of Generally Accepted Accounting Practice |
| GRAP | Generally Recognised Accounting Practice |
| IAS | International Accounting Standards |
| IFRS | International Financial Reporting Standards |
| IPSAS | International Public Sector Accounting Standards |
| ME's | Municipal Entities |
| MEC | Member of the Executive Council |
| MFMA | Municipal Finance Management Act |
| MIG | Municipal Infrastructure Grant (previously CMIP) |

Maluti-a-Phofung Water (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

Directors' Responsibilities and Approval

The directors are required by the Companies Act of South Africa (No. 61 of 1973) and the Municipal Finance Management Act 56 of 2003, to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the directors to ensure that the annual financial statements fairly present the state of affairs of the entity as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practices (GRAP).

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledges that they are ultimately responsible for the system of internal financial control established by the entity and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the entity and all employees are required to maintain the highest ethical standards in ensuring the entity's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the entity is on identifying, assessing, managing and monitoring all known forms of risk across the entity. While operating risk cannot be fully eliminated, the entity endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The directors have reviewed the entity's cash flow forecast for the year to 30 June 2012 and, in the light of this review and the current financial position, they are satisfied that the entity has or has access to adequate resources to continue in operational existence for the foreseeable future. The entity is partially dependent on the receipt of grants from the parent municipality, Maluti-a-Phofung Local Municipality.

The external auditors are responsible for independently reviewing and reporting on the entity's annual financial statements. The annual financial statements have been examined by the entity's external auditors.

The annual financial statements which have been prepared on the going concern basis, were approved by the board on 31 August 2011 and were signed on its behalf by:

Accounting Officer

31 August 2011

Maluti-a-Phofung Water (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2011.

Audit committee responsibility

We report that we have adopted appropriate formal terms of reference in our charter in line with the requirements of section 166(2)(a) of the MFMA. We further report that we have conducted our affairs in compliance with this charter.

The effectiveness of internal control

The system of internal controls applied by the entity over financial and risk management is effective, efficient and transparent. In line with the MFMA and the King III Report on corporate governance requirements, internal audit provides the audit committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal Auditors, the Audit Report on the annual financial statements, and the management letter of the Auditor General South Africa, it was noted that no matters were reported that indicate any material deficiencies in the system of internal control or any deviations there from. Accordingly, we can report that the system of internal control over financial reporting for the period under review was efficient and effective.

Evaluation of annual financial statements

We have:

- Reviewed and discussed the audited annual financial statements to be included in the annual report, with the Auditor General;
- Reviewed the Auditor General's management letter and management's response thereto;
- Reviewed changes in accounting policies and practices;
- Reviewed significant adjustments resulting from the audit.

We concur with and accept the Auditor General's report of the annual financial statements, and are of the opinion that the audited annual financial statements should be accepted and read together with the report of the Auditor General.

Chairperson of the Audit Committee

Date: _____

Maluti-a-Phofung Water (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

Directors' Report

The directors of Maluti-a-Phofung Water (Pty) Ltd take pleasure in submitting their report for the year ended 30 June 2011.

1. Incorporation

The entity was incorporated on 20 September 2005 and obtained its certificate to commence business on the same day.

2. Review of activities

Main business and operations

The company is a municipal entity and wholly owned subsidiary of Maluti-a-Phofung Local Municipality. The entity is mainly engaged in the supply of basic water, sanitation and revenue collecting services in the Maluti-a-Phofung district namely; Phuthaditjaba, Harrismith and Kestell.

The operating results and state of affairs of the entity are fully set out in the attached financial statements and do not require any further comment.

3. Subsequent events

The directors are not aware of any matter or circumstance arising since the end of the financial year.

4. Share capital

There were no changes in the authorised or issued share capital of the entity during the year under review.

5. Secretary

The secretary of the company is Enslins Harrismith.

6. Auditors

The Auditor General will continue in office for the next financial period.

7. Directors

The directors of the company at the date of this report are as follows:

Non-executive directors

- Mokhesi N
- Netshivhodza MG
- Zwane CNT

8. Parent municipality

The Maluti-a-Phofung Local Municipality owns 100% of the entity's shares and is the ultimate parent municipality.

Maluti-a-Phofung Water (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

Statement of Financial Position

| | Note(s) | 2011 R | 2010 R |
|---|---------|---------------------|---------------------|
| Assets | | | |
| Current Assets | | | |
| Inventories | 3 | 1,973,063 | 2,530,334 |
| Other receivables from non-exchange transactions | 4 | 2,529 | 2,500 |
| Trade receivables from exchange transactions | 6 | 20,669,417 | 17,876,588 |
| Cash and cash equivalents | 7 | 8,865,376 | 1,542,205 |
| | | 31,510,385 | 21,951,627 |
| Non-Current Assets | | | |
| Property, plant and equipment | 8 | 2,401,283 | 2,761,233 |
| Total Assets | | 33,911,668 | 24,712,860 |
| Liabilities | | | |
| Current Liabilities | | | |
| Current portion of finance lease liability | 11 | 144,153 | - |
| Trade and other payables from exchange transactions | 12 | 71,518,124 | 54,548,155 |
| VAT payable | 13 | 537,629 | 1,347,105 |
| | | 72,199,906 | 55,895,260 |
| Non-Current Liabilities | | | |
| Non-current portion of finance lease liability | 11 | 403,114 | 492,382 |
| Total Liabilities | | 72,603,020 | 56,387,642 |
| Net Assets | | (38,691,352) | (31,674,782) |
| Net Assets | | | |
| Share capital | 10 | 300 | 300 |
| Accumulated surplus / (deficit) | | (38,691,653) | (31,675,086) |
| Total Net Assets | | (38,691,353) | (31,674,786) |

Maluti-a-Phofung Water (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

Statement of Financial Performance

| | Note(s) | 2011 R | 2010 R |
|---|---------|--------------------|--------------------|
| Revenue | | | |
| Service charges | 15 | 28,429,484 | 22,219,938 |
| Government grants & subsidies | 16 | 68,499,000 | 61,792,918 |
| Other income | 17 | 166,107 | 59,637 |
| Total Revenue | | 97,094,591 | 84,072,493 |
| Expenses | | | |
| Employee related cost | 19 | 50,466,996 | 46,083,272 |
| Remuneration of directors | 20 | 114,716 | 110,000 |
| Depreciation and amortisation | 21 | 1,334,917 | 353,030 |
| Finance costs | 22 | 1,950,165 | 1,338,144 |
| Allowance for bad debt | 24 | - | 293,550 |
| Bulk purchases | 25 | 17,684,386 | 13,980,486 |
| Administration | 26 | 5,184,683 | 4,156,643 |
| General expenses | 27 | 12,056,478 | 11,102,601 |
| Repairs and maintenance | | 15,318,820 | 16,070,238 |
| Total Expenses | | 104,111,161 | 93,487,964 |
| Surplus / (deficit) for the year | | (7,016,570) | (9,415,471) |

Maluti-a-Phofung Water (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

Statement of Changes in Net Assets

| | Share capital | Accumulated surplus / (deficit) | Total net assets |
|--|---------------|---------------------------------|---------------------|
| | R | R | R |
| Opening balance as previously reported | 300 | (13,328,331) | (13,328,031) |
| Adjustments | | | |
| Prior year adjustments note 32 | - | (8,931,284) | (8,931,284) |
| Balance at 01 July 2010 as restated | 300 | (22,259,615) | (22,259,315) |
| Changes in net assets | | | |
| Surplus / deficit for the year | - | (9,415,471) | (9,415,471) |
| Total changes | - | (9,415,471) | (9,415,471) |
| Balance at 01 July 2010 | 300 | (31,675,083) | (31,674,783) |
| Changes in net assets | | | |
| Surplus / (deficit) for the year | - | (7,016,570) | (7,016,570) |
| Total changes | - | (7,016,570) | (7,016,570) |
| Balance at 30 June 2011 | 300 | (38,691,653) | (38,691,653) |

Maluti-a-Phofung Water (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

Cash Flow Statement

| | Note(s) | 2011 R | 2010 R |
|---|---------|-------------------------|-------------------------|
| Cash flows from operating activities | | | |
| Receipts | | | |
| Cash receipts from customers, government and other | | 26,370,146 | 18,942,882 |
| Grants | | 68,499,000 | 61,792,918 |
| Other receipts | | 166,107 | 59,637 |
| | | <u>95,035,253</u> | <u>80,795,437</u> |
| Payments | | | |
| Cash paid to suppliers and employees | | (84,841,832) | (77,318,584) |
| Finance costs | | (1,950,165) | (1,338,144) |
| | | <u>(86,791,997)</u> | <u>(78,656,728)</u> |
| Net cash flows from operating activities | 29 | <u>8,243,256</u> | <u>2,138,709</u> |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 8 | <u>(974,968)</u> | <u>(733,615)</u> |
| Cash flows from financing activities | | | |
| Repayment of finance lease liability | | <u>54,885</u> | <u>-</u> |
| Net increase/(decrease) in cash and cash equivalents | | <u>7,323,173</u> | <u>1,405,094</u> |
| Cash and cash equivalents at the beginning of the year | | <u>1,542,205</u> | <u>137,111</u> |
| Cash and cash equivalents at the end of the year | 7 | <u>8,865,378</u> | <u>1,542,205</u> |

Maluti-a-Phofung Water (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1. Presentation of annual financial statements

The annual financial statements have been prepared in accordance with South African Statements of Generally Recognised Accounting Practice (GRAP), including any interpretations, guidelines and directives issued by the Accounting Standards Board in accordance with the Municipal Finance Management Act (Act No 56 of 2003).

Accounting policies for material transactions, events or conditions not covered by the GRAP reporting framework have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3 and the hierarchy approved in Directive 5 issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements.

Significant judgements include:

Trade receivables / loans and receivables

The entity assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded the entity makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete inventory

An allowance for inventory to write inventory down to the lower of cost or net realisable value (or current replacement cost where inventory is held in distribution or for consumption in the production process at no charge or for a nominal charge). Management has made estimates of the selling price and direct cost to sell on certain inventory items.

Fair value estimation

The carrying value of trade receivables less impairment allowance and payables are assumed to approximate their fair values.

Useful lives and residual values

The entity re-assesses the useful lives and residual values of property, plant and equipment on a yearly basis. These assessments require judgements and assumptions to be made by management, which includes the asset's technological innovation, maintenance programs and physical condition.

Allowance for doubtful debts

On receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the receivable's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Maluti-a-Phofung Water (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.2 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost or fair value of the item can be measured reliably.

Initial recognition

Property, plant and equipment are initially recognised at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Subsequent measurement

Property, plant and equipment are carried at cost less accumulated depreciation and any impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Depreciation and impairment

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

| Item | Average useful life |
|------------------------|---------------------|
| Land | Indefinite life |
| Plant and machinery | 10 years |
| Furniture and fixtures | 6 years |

Maluti-a-Phofung Water (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.2 Property, plant and equipment (continued)

| | |
|------------------|---------|
| Motor vehicles | 5 years |
| Office equipment | 6 years |
| IT equipment | 3 years |

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate in the statement of financial performance.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The entity tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the statement of financial performance.

Derecognition

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item and is recognised in the Statement of financial performance.

1.3 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Subsequent to initial recognition intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no

Maluti-a-Phofung Water (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.3 Intangible assets (continued)

foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each financial reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate in the statement of financial performance.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

| Item | Useful life |
|---------------------------|-------------|
| Computer software | 3 years |
| Website development costs | 3 years |

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

The municipality tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the statement of financial performance.

1.4 Financial instruments

Classification

The entity classifies financial assets and financial liabilities into the following categories:

- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Initial recognition

Financial instruments are recognised initially when the entity becomes a party to the contractual provisions of the instruments.

The entity classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are recognised initially at fair value, except for equity investments for which a fair value is not determinable, which are recognised at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial recognition of the instrument.

Maluti-a-Phofung Water (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.4 Financial instruments (continued)

Subsequent measurement

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Impairment of financial assets

At each end of the reporting period the entity assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit. The entity first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Loans to/(from) economic entities

These include loans to and from the controlling municipality, fellow controlled entities, controlled entities, joint ventures and associates and are recognised initially at fair value plus direct transaction costs.

Loans to economic entities are classified as loans and receivables.

Loans from economic entities are classified as financial liabilities measured at amortised cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest rate method.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially recognised at fair value, and are subsequently recognised at amortised cost, using the effective interest rate method.

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;

Maluti-a-Phofung Water (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.4 Financial instruments (continued)

- the entity retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the entity has transferred its rights to receive cash flows from the asset and either
 - has transferred substantially all the risks and rewards of the asset, or
 - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

1.5 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease liability.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.6 Inventories

Inventories are initially recognised at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition, subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale.

Current replacement cost is the cost the entity will incur to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the entity.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are

Maluti-a-Phofung Water (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.6 Inventories (continued)

distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.7 Impairment of cash-generating assets

Cash-generating assets are those assets held by the entity with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation or amortisation.

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs.

Depreciation and amortisation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the entity; or
- the number of production or similar units expected to be obtained from the asset by the entity.

Identification

The entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the entity estimates the recoverable amount of the asset.

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the entity applies the appropriate discount rate to those future cash flows.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the entity recognises a liability only to the extent that is a requirement in the Standard of GRAP.

Maluti-a-Phofung Water (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.7 Impairment of cash-generating assets (continued)

After the recognition of an impairment loss, the depreciation or amortisation charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the entity determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the entity use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Reversal of impairment loss

The entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

1.8 Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

Maluti-a-Phofung Water (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

Identification

The entity assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the entity estimates the recoverable service amount of the asset.

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

Value in use

Value in use of a non-cash-generating asset is the present value of the non-cash-generating asset's remaining service potential.

The present value of the remaining service potential of a non-cash-generating asset is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the entity would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the entity recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Maluti-a-Phofung Water (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.9 Share capital

Ordinary shares are classified as equity.

1.10 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

1.11 Provisions and contingencies

Provisions are recognised when:

- the entity has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

Provisions are not recognised for future operating losses.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 30.

Maluti-a-Phofung Water (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.12 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by surveys of work performed.

Interest and dividends

Revenue arising from the use by others of entity assets yielding interest and dividends is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the entity, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Dividends, or their equivalents are recognised, in surplus or deficit, when the entity's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

Maluti-a-Phofung Water (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.13 Revenue from non-exchange transactions

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arises when the entity can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, the entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the entity.

When, as a result of a non-exchange transaction, the entity recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably.

1.14 Comparative figures

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

1.15 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Maluti-a-Phofung Water (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.16 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.17 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.18 Presentation of currency

These annual financial statements are presented in South African Rand, which is the functional currency of the entity.

1.19 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

1.20 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the entity has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.21 Related parties

The entity operates in an economic sector currently dominated by entities directly or indirectly owned or controlled by the South African government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Related party disclosures for transactions between government entities that took place on terms and conditions that are considered in arms length and in the ordinary course of business are not disclosed in accordance with IPSAS 20 Related Party Disclosure.

Key management is defined as being individuals with the authority and responsibility for planning, directing and controlling the activities of the entity. The entity regards all individuals from the level of directors and management as key management.

Close family members of key management personnel are considered to be those family members who may be expected to influence, or to be influenced by key management individuals, in their dealings with the entity.

1.22 Budget information

The entity is typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation or appropriation.

General purpose financial reporting by the entity will provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The statement of comparative and actual information have been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury. Refer to Appendix D for comparison between the budget and the actual figures.

Maluti-a-Phofung Water (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

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2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the entity has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

IGRAP 1: Interpretation of GRAP: Applying the Probability Test on Initial Recognition of Exchange Revenue

The entity assesses the probability of each transaction on an individual basis when it occurs. Entities shall not assess the probability on an overall level based on the payment history of recipients of the service in general when the probability of revenue is assessed at initial recognition.

The full amount of revenue will be recognised at initial recognition. Assessing impairment is an event that takes place subsequently to initial recognition. Such impairment is an expense. Revenue is not reduced by this expense.

The effective date of the interpretation is for years beginning on or after 01 April 2010.

The entity has adopted the interpretation for the first time in the 2011 annual financial statements.

The impact of the interpretation is not material.

2.2 Standards and interpretations issued, but not yet effective

The entity has not applied the following standards and interpretations, which have been published and are mandatory for the entity's accounting periods beginning on or after 01 July 2011 or later periods:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the entity. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the entity's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

The effective date of the standard is still to be determined by the Minister of Finance.

It is unlikely that the standard will have a material impact on the entity's annual financial statements.

GRAP 23: Revenue from Non-exchange Transactions

Revenue from non-exchange transactions arises when an entity receives value from another entity without directly giving approximately equal value in exchange. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.

This revenue will be measured at the amount of increase in net assets recognised by the entity.

An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is recognised for the same inflow. As an entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it will reduce the carrying amount of the liability recognised as recognise an amount equal to that reduction.

The effective date of the standard is for financial years commencing on or after 1 April 2012.

The entity expects to adopt the standard for the first time in the 2013 annual financial statements.

It is unlikely that the standard will have a material impact on the entity's annual financial statements.

Maluti-a-Phofung Water (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 24: Presentation of Budget Information in the Financial Statements

Subject to the requirements of paragraph 19, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

- the approved and final budget amounts;
- the actual amounts on a comparable basis; and
- by way of note disclosure, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

Where an entity prepares its budget and annual financial statements on a comparable basis, it includes the comparison as an additional column in the primary annual financial statements. Where the budget and annual financial statements are not prepared on a comparable basis, a separate statement is prepared called the 'statement of comparison of budget and actual amounts'. This statement compares the budget amounts with the amounts in the annual financial statements adjusted to be comparable to the budget.

A comparable basis means that the budget and annual financial statements:

- are prepared using the same basis of accounting i.e. either cash or accrual;
- include the same activities and entities;
- use the same classification system; and
- are prepared for the same period.

The effective date of the standard is for financial years commencing on or after 1 April 2012.

The entity expects to adopt the standard for the first time in the 2013 annual financial statements.

It is unlikely that the standard will have a material impact on the entity's annual financial statements.

GRAP 103: Heritage Assets

GRAP 103 defines heritage assets as assets which have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Certain heritage assets are described as inalienable items thus assets which are retained indefinitely and cannot be disposed of without consent as required by law or otherwise.

A heritage asset should be recognised as an asset only if:

- it is probable that future economic benefits or service potential associated with the asset will flow to the entity; and
- the cost of fair value of the asset can be measured reliably.

The standard requires judgment in applying the initial recognition criteria to the specific circumstances surrounding the entity and the assets.

GRAP 103 states that a heritage asset should be measured at its cost unless it is acquired through a non-exchange transaction which should then be measured at its fair value as at the date of acquisition.

In terms of the standard, an entity has a choice between the cost and revaluation model as accounting policy for subsequent recognition and should apply the chosen policy to an entire class of heritage assets.

The cost model requires a class of heritage assets to be carried at its cost less any accumulated impairment losses.

The revaluation model requires a class of heritage assets to be carried at its fair value at the date of the revaluation less any subsequent impairment losses. The standard also states that a restriction on the disposal of a heritage asset does not preclude the entity from determining the fair value.

GRAP 103 prescribes that when determining the fair value of a heritage asset that has more than one purpose, the fair value should reflect both the asset's heritage value and the value obtained from its use in the production or supply of goods or services or for administrative purposes.

Maluti-a-Phofung Water (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase should be credited directly to a revaluation surplus. However, the increase should be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit. If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease should be recognised in surplus or deficit. However, the decrease should be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

GRAP 103 states that a heritage asset should not be depreciated but an entity should assess at each reporting date whether there is an indication that it may be impaired.

In terms of the standard, compensation from third parties for heritage assets that have been impaired, lost or given up, should be included in surplus or deficit when the compensation becomes receivable.

For a transfer from heritage assets carried at a revalued amount to property, plant and equipment, investment property, inventories or intangible assets, the asset's deemed cost for subsequent accounting should be its revalued amount at the date of transfer. The entity should treat any difference at that date between the carrying amount of the heritage asset and its fair value in the same way as a revaluation in accordance with this Standard. If an item of property, plant and equipment or an intangible asset carried at a revalued amount, or investment property carried at fair value is reclassified as a heritage asset carried at a revalued amount, the entity applies the applicable Standard of GRAP to that asset up to the date of change. The entity treats any difference at that date between the carrying amount of the asset and its fair value in accordance with the applicable Standard of GRAP relating to that asset. For a transfer from investment property carried at fair value, or inventories to heritage assets at a revalued amount, any difference between the fair value of the asset at that date and its previous carrying amount should be recognised in surplus or deficit.

The carrying amount of a heritage asset should be derecognised:

- on disposal, or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset should be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

The effective date of the standard is for financial years commencing on or after 1 April 2012.

The entity expects to adopt the standard for the first time in the 2013 annual financial statements.

It is unlikely that the standard will have a material impact on the entity's annual financial statements.

GRAP 21: Impairment of Non-Cash-Generating Assets

Non-cash-generating assets are assets other than cash-generating assets.

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

An entity assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, an entity estimates the recoverable service amount of the asset.

The present value of the remaining service potential of a non-cash-generating asset is determined using one of the following approaches:

- Depreciated replacement cost approach
- Restoration cost approach
- Service units approach

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

An entity assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, an entity estimates the recoverable service amount of that asset.

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Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

The effective date of the standard is for financial years commencing on or after 1 April 2012.

The impact of this standard is currently being assessed.

GRAP 26: Impairment of Cash-Generating Assets

Cash-generating assets are those assets held by an entity with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

An entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, a entity estimates the recoverable amount of the asset. When estimating the value in use of an asset, a entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and a entity applies the appropriate discount rate to those future cash flows.

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, an entity determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, an entity uses management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

An entity assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, an entity estimates the recoverable amount of that asset.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

The effective date of the standard is for financial years commencing on or after 1 April 2012.

The entity expects to adopt the standard for the first time in the 2013 annual financial statements.

It is unlikely that the standard will have a material impact on the entity's annual financial statements.

Maluti-a-Phofung Water (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 25: Employee Benefits

The objective of GRAP 25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires an entity to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when an entity consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

GRAP 25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

The standard also deals with entity combinations and curtailments and settlements.

The effective date of the standard is still to be determined by the Minister of Finance.

It is unlikely that the standard will have a material impact on the entity's annual financial statements.

GRAP 104: Financial Instruments

The standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments. Financial instruments are defined as those contracts that result in a financial asset in one entity and a financial liability or residual interest in another entity. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.

One of the key considerations in initially recognising financial instruments is the distinction, by the issuers of those instruments, between financial assets, financial liabilities and residual interests. Financial assets and financial liabilities are distinguished from residual interests because they involve a contractual right or obligation to receive or pay cash or another financial instrument. Residual interests entitle a entity to a portion of another entity's net assets in the event of liquidation and, to dividends or similar distributions paid at management's discretion.

In determining whether a financial instrument is a financial asset, financial liability or a residual interest, a entity considers the substance of the contract and not just the legal form.

Where a single instrument contains both a liability and a residual interest component, the issuer allocates the instrument into its component parts. The issuer recognises the liability component at its fair value and recognises the residual interest as the difference between the carrying amount of the instrument and the fair value of the liability component. No gain or loss is recognised by separating the instrument into its component parts.

Financial assets and financial liabilities are initially recognised at fair value. Where an entity subsequently measures financial assets and financial liabilities at amortised cost or cost, transactions costs are included in the cost of the asset or liability.

The transaction price usually equals the fair value at initial recognition, except in certain circumstances, for example, where interest free credit is granted or where credit is granted at a below market rate of interest.

Concessionary loans are loans either received by or granted to another entity on concessionary terms, e.g. at low interest rates and flexible repayment terms. On initial recognition, the fair value of a concessionary loan is the present value of the agreed contractual cash flows, discounted using a market related rate of interest for a similar transaction. The difference between the proceeds either received or paid and the present value of the contractual cash flows is accounted for as non-exchange revenue by the recipient of a concessionary loan in accordance with Standard of GRAP on Revenue from Non-exchange Revenue Transactions (Taxes and Transfers), and using the Framework for the Preparation and Presentation of Financial Statements (usually as an expense) by the grantor of the loan.

Financial assets and financial liabilities are subsequently measured either at fair value or, amortised cost or cost. An entity measures a financial instrument at fair value if it is:

- a derivative;
- a combined instrument designated at fair value, i.e. an instrument that includes a derivative and a non-derivative host contract;
- held-for-trading;
- a non-derivative instrument with fixed or determinable payments that is designated at initial recognition to be

Maluti-a-Phofung Water (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- measured at fair value;
- an investment in a residual interest for which fair value can be measured reliably; and
- other instruments that do not meet the definition of financial instruments at amortised cost or cost.

Derivatives are measured at fair value. Combined instruments that include a derivative and non-derivative host contract are accounted for as follows:

- Where an embedded derivative is included in a host contract which is a financial instrument within the scope of this standard, an entity can designate the entire contract to be measured at fair value or, it can account for the host contract and embedded derivative separately using GRAP 104. A entity is however required to measure the entire instrument at fair value if the fair value of the derivative cannot be measured reliably.
- Where the host contract is not a financial instrument within the scope of this standard, the host contract and embedded derivative are accounted for separately using GRAP 104 and the relevant Standard of GRAP.

Financial assets and financial liabilities that are non-derivative instruments with fixed or determinable payments, for example deposits with banks, receivables and payables, are measured at amortised cost. At initial recognition, a entity can however designate such an instrument to be measured at fair value.

A entity can only measure investments in residual interests at cost where the fair value of the interest cannot be determined reliably.

Once a entity has classified a financial asset or a financial liability either at fair value or amortised cost or cost, it is only allowed to reclassify such instruments in limited instances.

An entity derecognises a financial asset, or the specifically identified cash flows of an asset, when:

- the cash flows from the asset expire, are settled or waived;
- significant risks and rewards are transferred to another party; or
- despite having retained significant risks and rewards, an entity has transferred control of the asset to another entity.

A entity derecognises a financial liability when the obligation is extinguished. Exchanges of debt instruments between a borrower and a lender are treated as the extinguishment of an existing liability and the recognition of a new financial liability. Where an entity modifies the term of an existing financial liability, it is also treated as the extinguishment of an existing liability and the recognition of a new liability.

An entity cannot offset financial assets and financial liabilities in the statement of financial position unless a legal right of set-off exists, and the parties intend to settle on a net basis.

GRAP 104 requires extensive disclosures on the significance of financial instruments for an entity's statement of financial position and statement of financial performance, as well as the nature and extent of the risks that an entity is exposed to as a result of its annual financial statements. Some disclosures, for example the disclosure of fair values for instruments measured at amortised cost or cost and the preparation of a sensitivity analysis, are encouraged rather than required.

GRAP 104 does not prescribe principles for hedge accounting. An entity is permitted to apply hedge accounting, as long as the principles in IAS 39 are applied.

The effective date of the standard is still to be determined by the Minister of Finance.

It is unlikely that the standard will have a material impact on the entity's annual financial statements.

GRAP 105: Transfer of Functions between Entities Under Common Control

GRAP 105 establishes accounting policies for the acquirer and transferor in a transfer of functions between entities under common control. The effective date of the standard is to be determined by the Minister of Finance and the standard was issued during November 2010.

The entity does not envisage the adoption of the standard until such time as it becomes applicable to the entity's operations.

It is unlikely that the standard will have a material impact on the entity's annual financial statements.

GRAP 106: Transfer of Functions between Entities Not Under Common Control

Maluti-a-Phofung Water (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 106 establishes accounting principles for the acquirer in a transfer of functions between entities not under common control.

The effective date of the standard is to be determined by the Minister of Finance and the standard was issued during November 2010.

The entity does not envisage the adoption of the standard until such time as it becomes applicable to the entity's operations.

It is unlikely that the standard will have a material impact on the entity's annual financial statements.

GRAP 107: Mergers

GRAP 107 establishes accounting principles for the combined entity and combining entities in a merger. The standard will be applied to a transaction or event where no acquirer can be identified.

The effective date of the standard is to be determined by the Minister of Finance and the standard was issued during November 2010.

The entity does not envisage the adoption of the standard until such time as it becomes applicable to the entity's operations.

It is unlikely that the standard will have a material impact on the entity's annual financial statements.

Improvements to other standards

Improvements are proposed to the following standards of GRAP as part of the Accounting Standards Board's improvement project:

- GRAP 1 - 4
- GRAP 9 - 14
- GRAP 16, 17, 19 and 100

The following standards of GRAP are affected by the Interpretations issued:

- GRAP 9 and 10
- GRAP 13
- GRAP 19

Interpretations

The list of interpretations are as follows:

- IGRAP 2 – Changes in Existing Decommissioning, Restoration and similar Liabilities
- IGRAP 3 - Determining Whether an Arrangement Contains a Lease
- IGRAP 4 – Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IGRAP 5 – Applying the Restatement Approach under the Standard of GRAP on Financial Reporting in Hyperinflationary Economies
- IGRAP 6 – Loyalty Programmes
- IGRAP 7 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction
- IGRAP 8 – Agreements for the Construction of Assets from Exchange Transactions
- IGRAP 9 - Distributions of Non cash Assets to Owners
- IGRAP 10 – Assets Received from Customers
- IGRAP 13 – Operating Leases – Incentives
- IGRAP 14 – Evaluating the Substance of Transactions Involving the Legal Form of a Lease
- IGRAP 15 – Revenue – Barter Transactions Involving Advertising Services

The entity does not envisage the adoption of the interpretations and standards until such time as they becomes applicable to the entity's operations.

It is unlikely that the interpretation will have a material impact on the entity's annual financial statements.

Maluti-a-Phofung Water (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

| | 2011 R | 2010 R |
|-----------------------|------------------|------------------|
| 3. Inventories | | |
| Consumable stores | 1,866,025 | 2,262,554 |
| Water | 107,038 | 267,780 |
| | 1,973,063 | 2,530,334 |

4. Other receivables from non-exchange transactions

| | | |
|----------|-------|-------|
| Deposits | 2,529 | 2,500 |
|----------|-------|-------|

None of the financial assets that are fully performing have been renegotiated in the last year.

Other receivables from non-exchange transactions past due but not impaired

Trade and other receivables which are less than 3 months past due are not considered to be impaired. None of the receivables were impaired.

5. VAT receivable

VAT is payable on the receipts basis. VAT is paid over to SARS only once payment is received from debtors.

6. Trade receivables from exchange transactions

| | | |
|--|-------------------|-------------------|
| Gross balances | | |
| Service receivables - water and sanitation | 21,366,889 | 17,876,588 |
| Less: Provision for debt impairment | | |
| Service receivables - water and sanitation | (697,472) | - |
| Net balance | | |
| Service receivables - water and sanitation | 21,366,889 | 17,876,588 |
| Less provision for debt impairment | (697,472) | - |
| | 20,669,417 | 17,876,588 |
| Water and sanitation | | |
| Current (0 -30 days) | 21,366,889 | 17,876,588 |
| Debt impairment provision | | |
| > 365 days | (697,472) | - |
| Reconciliation of debt impairment provision | | |
| Contributions to provision | (697,472) | - |

Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past nor due nor impaired can be assessed by reference to historical information about counterparty default rates.

The entity has a service level agreement with Maluti-a-Phofung Local Municipality in terms of which the entity renders water, sanitation and revenue collection services to the Municipality.

Maluti-a-Phofung Water (Pty) Ltd

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Notes to the Annual Financial Statements

| | 2011 R | 2010 R |
|---------------------------------------|------------------|------------------|
| 7. Cash and cash equivalents | | |
| Cash and cash equivalents consist of: | | |
| Cash on hand | 6,997 | 4,458 |
| Cash at bank | 8,858,355 | 1,537,723 |
| Credit card | 24 | 24 |
| | 8,865,376 | 1,542,205 |

No assets were pledged as security for overdraft facilities.

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates.

The company had the following bank accounts

| Current Account (Primary Bank Account) | Bank statement balances | | | Cash book balances | | |
|---|-------------------------|------------------|----------------|--------------------|------------------|----------------|
| | 30 June 2011 | 30 June 2010 | 30 June 2009 | 30 June 2011 | 30 June 2010 | 30 June 2009 |
| First National Bank Limited - Current (620 9384 2667) | 9,912,482 | 1,553,293 | 272,628 | - | - | - |
| Cashbook | - | - | - | 8,858,355 | 1,537,723 | 132,650 |
| Total | 9,912,482 | 1,553,293 | 272,628 | 8,858,355 | 1,537,723 | 132,650 |

8. Property, plant and equipment

| | 2011 | | | 2010 | | |
|---------------------|-------------------|--------------------------|------------------|-------------------|--------------------------|------------------|
| | Cost / Valuation | Accumulated depreciation | Carrying value | Cost / Valuation | Accumulated depreciation | Carrying value |
| Buildings | 299,115 | - | 299,115 | 286,835 | - | 286,835 |
| Other assets | 7,219,786 | (5,870,657) | 1,349,129 | 6,965,753 | (4,880,866) | 2,084,887 |
| Plant and machinery | 3,777,349 | (3,024,310) | 753,039 | 3,068,695 | (2,679,184) | 389,511 |
| Total | 11,296,250 | (8,894,967) | 2,401,283 | 10,321,283 | (7,560,050) | 2,761,233 |

Reconciliation of property, plant and equipment - 2011

| | Opening balance | Additions | Depreciation | Total |
|---------------------|------------------|----------------|--------------------|------------------|
| Buildings | 286,835 | 12,280 | - | 299,115 |
| Other assets | 2,084,887 | 254,033 | (989,791) | 1,349,129 |
| Plant and machinery | 389,511 | 708,655 | (345,127) | 753,039 |
| | 2,761,233 | 974,968 | (1,334,918) | 2,401,283 |

Reconciliation of property, plant and equipment - 2010

| | Opening balance | Additions | Depreciation | Total |
|---------------------|------------------|----------------|------------------|------------------|
| Buildings | 194,060 | 92,775 | - | 286,835 |
| Other assets | 1,774,984 | 640,839 | (330,936) | 2,084,887 |
| Plant and machinery | 411,605 | - | (22,094) | 389,511 |
| | 2,380,649 | 733,614 | (353,030) | 2,761,233 |

Maluti-a-Phofung Water (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

| | 2011 R | 2010 R |
|--|--------------------------|-------------------|
| 8. Property, plant and equipment (continued) | | |
| Pledged as security | | |
| None of the assets were pledged as security. | | |
| 9. Financial assets by category | | |
| The accounting policies for financial instruments have been applied to the line items below: | | |
| 2011 | | |
| | Loans and receivables | Total |
| Trade and other receivables from exchange transactions | 21,760,543 | 21,760,543 |
| Other receivables from non-exchange transactions | 2,529 | 2,529 |
| Cash and cash equivalents | 8,865,376 | 8,865,376 |
| | 30,628,448 | 30,628,448 |
| 2010 | | |
| | Loans and receivables | Total |
| Trade and other receivables from exchange transactions | 19,701,205 | 19,701,205 |
| Other receivables from non-exchange transactions | 2,500 | 2,500 |
| Cash and cash equivalents | 1,542,205 | 1,542,205 |
| | 21,245,910 | 21,245,910 |
| 10. Share capital | | |
| Authorised | | |
| 1,000 Ordinary shares of R1 each | 1,000 | 1,000 |
| The unissued ordinary shares are under the control of the directors in terms of a resolution of shareholders passed at the last annual general meeting. This authority remains in force until the next annual general meeting. | | |
| Issued | | |
| 300 Ordinary shares of R1 each | 300 | 300 |
| 11. Finance lease liability | | |
| Minimum lease payments due | | |
| - within one year | 1,606,504 | 1,396,960 |
| - in second to fifth year inclusive | 724,010 | 2,314,350 |
| | 2,330,514 | 3,711,310 |
| less: future finance charges | (1,783,247) | (3,218,928) |
| Present value of minimum lease payments | 547,267 | 492,382 |
| Present value of minimum lease payments due | | |
| - within one year | 144,153 | (54,885) |
| - in second to fifth year inclusive | 403,114 | 547,267 |
| | 547,267 | 492,382 |
| Non-current liabilities | 403,114 | 492,382 |
| Current liabilities | 144,153 | - |

Maluti-a-Phofung Water (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

| | 2011 R | 2010 R |
|--|----------------|----------------|
| 11. Finance lease liability (continued) | | |
| | 547,267 | 492,382 |

A contract was entered into by the entity on 1 December 2009 for the rental of 41 colour printers and 6 digital copier machines. The period of the contract is 36 months ending 30 November 2012. The monthly rental amounts to R123,104 excluding VAT with a 15% escalation charge per annum as calculated from the commencement date of 1 December 2009. The interest rate implicit to the lease is calculated at 275.32% per annum.

The entity did not default on any of the principal or interest repayments during the period of the lease agreements. No terms were renegotiated before the financial statements were authorised.

12. Trade and other payables from exchange transactions

| | | |
|---|-------------------|-------------------|
| Accrued leave pay | 6,188,367 | 5,272,138 |
| Department of Water and Environmental Affairs | 57,960,930 | 45,547,000 |
| Trade payables | 4,985,879 | 3,461,822 |
| Payroll liabilities - PAYE | 451,399 | - |
| Deposits | 1,931,549 | 267,195 |
| | 71,518,124 | 54,548,155 |

The carrying amount for trade and other payables approximates their fair value due to the short time period between initiation and settlement thereof. The effect of discounting is not material.

The entity did not default on any of the principal or interest repayments during the period. No terms were renegotiated before the financial statements were authorised.

13. VAT payable

| | | |
|-------------|---------|-----------|
| VAT payable | 537,629 | 1,347,105 |
|-------------|---------|-----------|

VAT is payable on the receipts basis. VAT is paid over to SARS only once payment is received from debtors.

14. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

2011

| | Financial liabilities at amortised cost | Total |
|---|---|-------------------|
| Finance lease liability | 547,267 | 547,267 |
| Trade and other payables from exchange transactions | 71,690,096 | 71,690,096 |
| | 72,237,363 | 72,237,363 |

2010

| | Financial liabilities at amortised cost | Total |
|---|---|-------------------|
| Finance lease liability | 492,382 | 492,382 |
| Trade and other payables from exchange transactions | 54,548,156 | 54,548,156 |
| | 55,040,538 | 55,040,538 |

Maluti-a-Phofung Water (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

| | 2011 R | 2010 R |
|---|-------------------|-------------------|
| 15. Service charges | | |
| Sale of water | 18,927,690 | 15,608,957 |
| Sewerage and sanitation charges | 9,501,794 | 6,610,981 |
| | 28,429,484 | 22,219,938 |
| 16. Government grants and subsidies | | |
| Equitable share | 57,555,000 | 47,043,920 |
| Water services operating subsidy grant | 10,944,000 | 14,748,998 |
| | 68,499,000 | 61,792,918 |
| Equitable share | | |
| Current-year receipts | 57,555,000 | 47,043,920 |
| Conditions met - transferred to revenue | (57,555,000) | (47,043,920) |
| | - | - |
| In terms of the service delivery agreement with Maluti-a-Phofung Local Municipality, this grant is used for services in particular for the delivery of free basic water services to low income households and all infrastructural development of the water services system. | | |
| Water services operating subsidy grant | | |
| Current-year receipts | 10,944,000 | 14,784,998 |
| Conditions met - transferred to revenue | (10,944,000) | (14,784,998) |
| | - | - |
| The purpose of the grant is to fund bulk, connector and internal infrastructure of water services at a basic level of service. The grant is transferred to the entity by Maluti-a-Phofung Local Municipality. | | |
| 17. Other income | | |
| Sundry Income | 59,627 | 59,637 |
| SETA refund | 106,480 | - |
| | 166,107 | 59,637 |
| 18. Operating deficit | | |
| Operating deficit for the year is stated after accounting inter alia for the following: | | |
| Operating lease charges | | |
| Premises | | |
| • Contractual amounts | 221,791 | 3,620 |
| | - | - |
| Depreciation on property, plant and equipment | 1,334,917 | 353,030 |
| Employee costs | 50,581,712 | 46,193,272 |
| Recruitment costs | 9,742 | 56,977 |
| 19. Employee related costs | | |
| Employee related costs - salaries and leave pay | 29,510,029 | 27,260,963 |
| Performance and other bonuses | 2,321,355 | 2,634,221 |
| Employee related costs - UIF, pensions and medical aid contributions | 7,854,709 | 7,645,210 |

Maluti-a-Phofung Water (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

| | 2011 R | 2010 R |
|---|-------------------|-------------------|
| 19. Employee related costs (continued) | | |
| Other short term costs | 390 | - |
| Overtime payments | 5,472,239 | 4,074,770 |
| Skills development levies | 360,999 | 239,364 |
| Telephone / cellphone allowance | 2,000 | - |
| Travel, motor car, accommodation, subsistence and other allowances | 4,945,275 | 4,228,744 |
| | 50,466,996 | 46,083,272 |
| Remuneration of Director Operations | | |
| Annual remuneration | 376,863 | 387,363 |
| Allowances | 148,791 | 137,521 |
| Bonuses | 31,405 | 31,405 |
| | 557,059 | 556,289 |
| Remuneration of Chief Financial Officer | | |
| Annual remuneration | 497,004 | 506,390 |
| Allowances | 166,951 | 161,102 |
| | 663,955 | 667,492 |
| Remuneration of Chief Executive Officer | | |
| Annual remuneration | 518,957 | 518,957 |
| Allowances | 223,508 | 212,145 |
| | 742,465 | 731,102 |
| Remuneration of Director Human Resources, Corporate Affairs and Administration Support | | |
| Annual remuneration | 296,302 | 329,306 |
| Car Allowance | 159,751 | 135,337 |
| Bonuses | 21,304 | 19,510 |
| Medical aid fringe benefit | 3,413 | 3,413 |
| | 480,770 | 487,566 |
| 20. Remuneration of directors | | |
| Sitting fees - Non executive directors | 114,716 | 110,000 |
| 21. Depreciation and amortisation | | |
| Property, plant and equipment | 1,334,917 | 353,030 |
| 22. Finance costs | | |
| Fair value adjustments on payables | 498,320 | 569,083 |
| Interest paid | 1,451,845 | 769,061 |
| | 1,950,165 | 1,338,144 |
| 23. Taxation | | |

No provision for tax has been made, as the entity is exempt from tax according to Section 10(1)(d) of the Income Tax Act.

Maluti-a-Phofung Water (Pty) Ltd

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Notes to the Annual Financial Statements

| | 2011 R | 2010 R |
|-----------------------------------|-------------------|-------------------|
| 24. Allowance for bad debt | | |
| Impairment of debtors | - | 293,550 |
| 25. Bulk purchases | | |
| Electricity and chemicals | 5,951,664 | 4,612,282 |
| Water | 11,732,722 | 9,368,204 |
| | 17,684,386 | 13,980,486 |
| 26. Administration fees | | |
| Administration fees - Uzinzo | 5,184,683 | 4,156,643 |
| 27. General expenses | | |
| Account deliveries | 235,103 | 232,932 |
| Advertising | 45,903 | 152,726 |
| Auditors remuneration | 1,998,712 | 1,125,552 |
| Awareness campaigns | 152,625 | 24,998 |
| Bank charges | 40,892 | 37,288 |
| Branding program | 13,578 | 75,068 |
| Cleaning | 704,899 | 4,611 |
| Community awareness | - | 772 |
| Computer software | 33,788 | 45,028 |
| Consulting and professional fees | 891,754 | 617,585 |
| Consumables | 62,546 | 126,283 |
| Corporate social responsibility | 11,981 | 7,398 |
| Credit control charges | - | 73,376 |
| Donations | - | 462 |
| Entertainment | 35,319 | 92,663 |
| Penalties and interest | 83,659 | 103,114 |
| General costs | 1,661 | 522 |
| Health and safety | 75,042 | 64,439 |
| IT expenses | 1,927,588 | 915,941 |
| Insurance | 1,786,641 | 3,425,556 |
| Printing and stationery | 183,625 | 345,152 |
| Promotions and sponsorships | 146,888 | 126,686 |
| Rates and taxes | - | 555,037 |
| Recruitment costs | 9,742 | 56,977 |
| Redemption | - | 5 |
| Rental and lease payments | 221,791 | 3,620 |
| Security costs | (420) | 328 |
| Services rendered | - | 16,100 |
| Show and exhibition costs | 149,237 | 52,102 |
| Staff study support | 123,659 | 110,201 |
| Stock adjustments | 883,252 | 1,248,623 |
| Student training | 338,417 | 80,410 |
| Subscriptions and membership fees | (698) | (681) |
| Telephone and fax | 1,733,126 | 1,223,352 |
| Training | 166,168 | 158,375 |
| | 12,056,478 | 11,102,601 |
| 28. Auditors' remuneration | | |
| Fees | 1,998,712 | 1,125,552 |

Maluti-a-Phofung Water (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

| | 2011 R | 2010 R |
|---|------------------|------------------|
| 29. Cash generated from operations | | |
| Deficit | (7,016,570) | (9,415,471) |
| Adjustments for: | | |
| Depreciation | 1,334,917 | 353,030 |
| Allowance for doubtful debts | - | 293,550 |
| Accrual for leave pay and bonuses | - | 282,918 |
| Changes in working capital: | | |
| Inventories | 557,271 | 1,288,986 |
| Other receivables from non-exchange transactions | (29) | (2,139,423) |
| Consumer debtors | (2,792,829) | - |
| Trade and other payables from exchange transactions | 16,969,969 | 11,475,119 |
| VAT | (809,473) | - |
| | 8,243,256 | 2,138,709 |

30. Contingent liability

The Department of Water and Environmental Affairs

The contingency disclosed for the Department of Water and Environmental affairs is as a result of the entity disputing interest charged to them by the department. The interest charged was calculated on invoices that were not applicable to the entity.

The contingency disclosed for the Department of Water and Environmental affairs also pertains to invoices that were made out to the entity, but were invoices for purchases made from the Trans Caledon Tunnel Authority (TCTA). The entity does not purchase water from this entity.

Maluti-a-Phofung Local Municipality

The contingency refer to the transactions between Maluti-a-Phofung Local Municipality and the entity. The invoices sent to Maluti-a-Phofung did not include VAT in the amounts that were charged. There is a dispute between the two entities as Circular No. 55 of the Receiver of Revenue states that the grants and income received by the entity are zero rated, but because it is a municipal entity, it is liable for VAT.

Management can not reliably estimate the financial effect of the claims due to uncertainties relating to when the cases will be resolved and management are not able to reliably determine the amount payable. The amounts disclosed, where applicable, reflects the claim against the entity.

| | | |
|---|-------------------|-------------------|
| Dispute with Maluti-a-Phofung Local Municipality on VAT not declared on grants received | 7,991,550 | |
| Interest charged to the entity accounts at Department of Water & Environmental Affairs | 15,450,356 | 15,450,356 |
| Dispute with Department of Water and Environmental affairs on TCTA invoices | 27,990,604 | 18,242,494 |
| | 51,432,510 | 33,692,850 |

Maluti-a-Phofung Water (Pty) Ltd

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Notes to the Annual Financial Statements

| | 2011 R | 2010 R |
|--|-------------------------------------|--------------|
| 31. Related parties | | |
| Relationships: | | |
| Ultimate controlling entity | Maluti-a-Phofung Local Municipality | |
| Related party balances | | |
| Amounts included in trade receivable/(trade payable) regarding related parties | | |
| Maluti-a-Phofung Local Municipality | 33,592,405 | 20,839,687 |
| Maluti-a-Phofung Local Municipality (Insurance) | (8,039,590) | (6,795,707) |
| Maluti-a-Phofung Local Municipality (Rates and taxes) | (7,414,949) | (5,754,816) |
| Related party transactions | | |
| Total service charges | | |
| Maluti-a-Phofung Local Municipality (Water and sewer) | (32,183,029) | (19,600,108) |
| Maluti-a-Phofung Local Municipality (Insurance) | 1,091,126 | 1,729,157 |
| Equitable share received: | | |
| Maluti-a-Phofung Local Municipality | 68,499,000 | 61,788,998 |
| Sitting fees paid to directors: | | |
| Mokhesi N | 46,929 | 45,000 |
| Netshivhodza MG | 67,787 | 65,000 |
| Other expenses paid by Maluti-a-Phofung Local Municipality | | |
| Mayihlome Tyres - Repairs and maintenance | 2,719,860 | 953,996 |
| Mayihlome Tyres - Capital expenditure | 4,144 | 1,823 |
| Tshedza Guest Lodge - accommodation | 44,550 | 4,990 |
| 32. Prior period errors | | |
| The interloan account between the entity and Maluti-a-Phofung Local Municipality was corrected due to errors that occurred prior to the 2007 financial year by R4,643,899. | | |
| Additions to office equipment were understated in the 2009 financial year by R407,000 due to an incomplete fixed asset register. | | |
| Water purchases of R11,042,178 were procured during the 2009 financial year that was not recorded by the entity. | | |
| Water inventory was overstated by R173,327 during the 2010 financial year end. | | |
| Asset to the value of R49,820 were not derecognised from the asset register during the 2010 financial year. | | |
| Revenue to the amount of R2,938,221 was not recognised during the 2009 financial year. | | |
| Revenue to the amount of R3,753,544 was incorrectly recognised during the 2011 financial year and not in the 2010 financial year. | | |
| Fair value adjustments were not made to the 2010 comparative figures, these adjustments amounted to R1,461,045. | | |
| Revenue amounting to R2,398,748 relating to the 2009 financial year was recorded in the 2010 financial year. | | |
| Statement of financial position | | |
| Decrease in Inventory | - | (173,327) |
| Increase in trade and other receivables from exchange transactions | - | 3,360,110 |
| Increase in VAT receivable | - | 3,865,468 |
| Decrease in accumulated depreciation | - | 31,221 |
| Increase in property, plant and equipment | - | 357,180 |

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Notes to the Annual Financial Statements

| | 2011 R | 2010 R |
|--|-----------|--------------|
| 32. Prior period errors (continued) | | |
| Increase in trade and other payables from exchange transactions | - | (13,748,022) |
| Decrease in opening accumulated loss | - | 8,931,284 |
| Statement of financial performance | | |
| Increase in revenue for Water, sewerage and industrial influence | - | (1,354,795) |
| Increase in interest paid | - | 569,082 |
| Increase in Depreciation | - | 18,599 |
| Decrease in Bulk purchases (Water) | - | 173,327 |
| Decrease in General expenses | - | (2,030,128) |

33. Risk management

Financial risk management

The entity's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk.

Liquidity risk

The entity's risk to liquidity is a result of the funds available to cover future commitments. The entity manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

Interest rate risk

As the entity has no significant interest-bearing assets, the entity's income and operating cash flows are substantially independent of changes in market interest rates.

Credit risk

Credit risk is managed on a group basis.

Credit risk consists mainly of cash deposits, cash equivalents and trade receivables. The entity only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

34. Going concern

We draw attention to the fact that at 30 June 2011, the entity had an accumulated loss of R(38,691,653) (2010 - R29,752,081) and that the entity's liabilities exceed its assets by R(38,691,353) (2010 - R29,752,081).

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

35. Events after the reporting date

At the time of preparing and submitting the annual financial statements there were no subsequent events to disclose.

Maluti-a-Phofung Water (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

| | 2011 R | 2010 R |
|---|--|-------------------|
| 36. Fruitless and wasteful expenditure | | |
| Opening balance | 319,888 | 208,516 |
| Fruitless and wasteful expenditure for the year (interest and penalties) | 83,731 | 111,372 |
| | 403,619 | 319,888 |
| Fruitless and wasteful expenditure (interest and penalties) relates to interest and penalties that was charged for late payments to defined contribution plan suppliers amounting to R3161 and late payment of output VAT amounting to R80570 | | |
| The fruitless and wasteful expenditure is to be laid before the board of directors for condonement. | | |
| 37. Irregular expenditure | | |
| Opening balance | 3,459,534 | - |
| Add: Irregular Expenditure - current year (SCM Policy not followed) | 2,321,037 | 2,710,207 |
| Add: Irregular Expenditure - Inflated prices paid for leased assets | 1,396,960 | 749,327 |
| Add: Irregular Expenditure - Lease contract not cancelled on time | 493,375 | - |
| | 7,670,906 | 3,459,534 |
| Details of irregular expenditure – current year | | |
| The Supply Chain Management policy and the Municipal Regulations were not followed. | Disciplinary steps taken/criminal proceedings Management is still in the process of condoning the expenditure. | 22,994,308 |
| The Supply Chain Management policy and the Municipal Regulations were not followed. | Management is still in the process of condoning the expenditure. | 2,321,037 |
| Fruitless and wasteful expenditure (inflated prices for leases) relates to the difference in cost between a leased asset and a asset purchased for cash. | Management is still in the process of condoning the expenditure. | 1,396,960 |
| Lease contracts were not cancelled in time and expenses are paid for old machines use on a month to month basis. | Management is still in the process of condoning the expenditure. | 493,375 |
| | | 27,205,680 |
| 38. Additional disclosure in terms of Municipal Finance Management Act | | |
| Contributions to organised local government | | |
| Current year subscription / fee | 135,417 | 140,326 |
| Amount paid - current year | (123,198) | (140,326) |
| Balance unpaid (included in payables) | 12,219 | - |
| Audit fees | | |
| Current year subscription / fee | 1,998,712 | 1,125,552 |
| Amount paid - current year | (1,998,712) | (1,125,552) |
| | - | - |
| PAYE and UIF | | |
| Opening balance | - | 330,736 |
| Current year subscription / fee | 14,301,088 | 3,859,861 |
| Amount paid - current year | (13,849,689) | (330,736) |
| Amount paid - previous years | - | (3,859,861) |
| | 451,399 | - |

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| | 2011 R | 2010 R |
|--|-----------|-----------|
|--|-----------|-----------|

38. Additional disclosure in terms of Municipal Finance Management Act (continued)

Pension and medical aid deductions

| | | |
|---------------------------------|-------------|--------------|
| Opening balance | - | 846,003 |
| Current year subscription / fee | 7,532,358 | 11,663,202 |
| Amount paid - current year | (7,532,358) | (11,663,202) |
| Amount paid - previous years | - | (846,003) |
| | <u>-</u> | <u>-</u> |

VAT

| | | |
|-------------|----------------|------------------|
| VAT payable | <u>537,629</u> | <u>1,347,102</u> |
|-------------|----------------|------------------|

All VAT returns have been submitted by the due date throughout the year.

39. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the board and includes a note to the annual financial statements.

Deviation detail the following deviations were identified from the deviation report:

| | | |
|---------------------------------|------------------|----------|
| Emergency - 22 transactions | 1,055,494 | - |
| Sole Provider - 11 transactions | 161,065 | - |
| Other - 73 transactions | 800,368 | - |
| | <u>2,016,927</u> | <u>-</u> |

40. Operating lease

At the reporting date the entity had outstanding commitments under operating leases which fell due as follows:

| | | |
|---------------------------------------|----------------|----------------|
| Within one year | 160,272 | 160,272 |
| In the second to fifth year inclusive | 160,272 | 320,544 |
| | <u>320,544</u> | <u>480,816</u> |

Operating leases consists of the following:

A contract was entered into by the company on 12 June 2008 for the rental of 63 C-Track vehicle monitoring systems. The period of the contract is 60 months with no escalation charges during this period. The monthly rental is R13,356 excluding VAT.

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| | 2011 R | 2010 R |
|---|------------------|------------------|
| 41. Retirement benefit information | | |
| Defined contribution plan | | |
| Sanlam pension fund (Coris Capital) | 3,637,162 | 3,570,763 |
| SAMWU provident fund | 67,134 | 61,416 |
| Sanlam provident fund (Coris Capital) | 1,270,304 | 1,360,378 |
| GEPF pension fund | 19,021 | 17,009 |
| Bonitas | 2,115,269 | 2,211,028 |
| Keyhealth | 103,915 | 94,827 |
| Discovery | 303,404 | 42,502 |
| Group insurance | 16,149 | 8,864 |
| | 7,532,358 | 7,366,787 |

These contributions have been expensed.